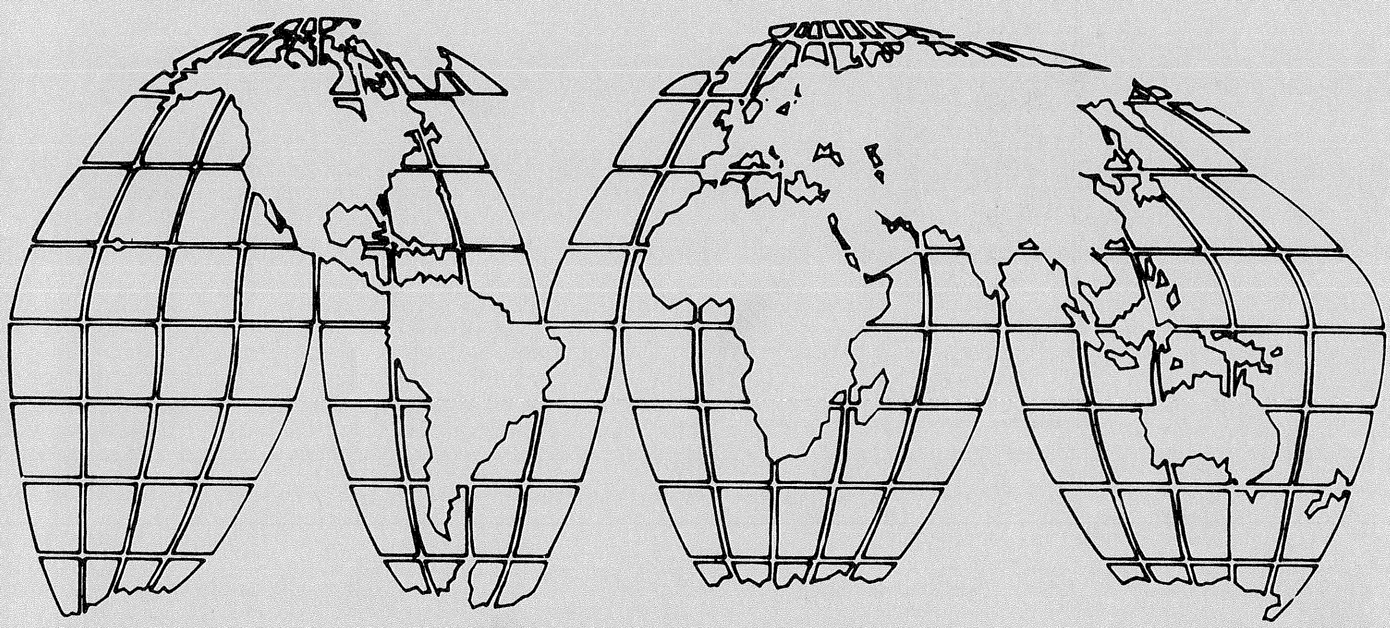
A.I.D. Evaluation Special Study No. 66

Taking Stock of A.I.D.'s Microenterprise Stocktaking Portfolio: Background and Conceptual Overview



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TAKING STOCK OF A.I.D.'S MICROENTERPRISE PORTFOLIO: BACKGROUND AND CONCEPTUAL OVERVIEW

A.I.D. EVALUATION SPECIAL STUDY NO. 66

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FOREWORD

During 1988 and 1989, the Agency for International Development (A.I.D.) undertook a major stocktaking of its experience in microenterprise development. The stocktaking examined different approaches and techniques that have been used in efforts to assist microenterprises, including alternative institutional mechanisms for delivering benefits. The study was designed to identify the most successful programs, institutions, and delivery techniques among A.I.D.-funded project interventions. It required an analysis of A.I.D. project approaches and how they serve the different types of microenterprises with their varying needs.

The stocktaking includes this conceptual overview of published evaluations, which identifies many factors that are important to project success. The paper develops a conceptual framework for analyzing the types of problems microentrepreneurs face.

The stocktaking also includes A Statistical Look at A.I.D's Microenterprise Portfolio, A.I.D. Evaluation Special Study No. 63, and field assessments of A.I.D. microenterprise assistance projects in 10 countries. The statistical report and the country assessments provide an excellent opportunity for development specialists to examine in a systematic, consistent manner a large number of project approaches operating under a variety of economic conditions.

The final part of the stocktaking is a synthesis report, which pulls together the findings of the conceptual overview paper and the field assessments to develop lessons learned and recommendations for microenterprise assistance programs.

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December 1989

SUMMARY

This paper provides background for the Agency for International Development's (A.I.D.) microenterprise stocktaking. The paper's primary purpose is to examine a variety of ideas, enterprises, programs, and projects to find concepts that aid in understanding the complexities of microenterprise development.

The report is organized into six sections and one appendix. Section 1 presents an overview of the stocktaking exercise and examines the process of selecting the sample of cases for study, and Section 2 presents a brief history of microenterprise development. Section 3 examines the nature and characteristics of the microenterprise sector and presents the framework for understanding the various approaches to microenterprise development. Section 4 focuses on program performance from the standpoint of beneficiary impact, program cost-effectiveness, and institutional sustainability. Section 5 outlines five groups of operationally relevant project characteristics, or factors, that form the basis for analyzing the determinants of project performance. Finally, Section 6 summarizes the argument of the paper, setting the stage for the balance of the stocktaking. The appendix includes profiles of each of the 32 programs reviewed for the stocktaking evaluation.

The major conclusions of the paper can be summarized as follows:

-- The term "microenterprise" refers to a diverse set of economic activities, distinguished primarily by the size of the undertaking. A microenterprise can be distinguished from the survival activities of the poorest of the poor and from small-scale enterprise on the basis of the barriers to entry between types of economic activities.

-- There is tremendous diversity of activity within the microenterprise sector. Different types of enterprises face different short- and long-run opportunities for and constraints to growth.

-- Three approaches to microenterprise development have been identified: enterprise formation, enterprise expansion, and enterprise transformation. The enterprise formation approach seeks to integrate those in the survival-oriented economy into the microeconomy. The enterprise expansion approach attempts to improve the performance of microenterprises. The enterprise

transformation approach aims to graduate firms from microenterprise to small-scale enterprise.

-- The performance of microenterprise assistance programs can be measured against the criteria of beneficiary impact, cost-effectiveness, and institutional sustainability. Beneficiary impact and cost-effectiveness are valid across all types of programs; institutional self-sustainability is not a necessary condition for successful programs and projects.

-- A variety of factors are thought to influence program performance. These include targeting, strategy, credit tactics, training and technical assistance tactics, and institutional factors. Many of the differences of opinion on these issues stem from differences among approaches.

GLOSSARY

ACCION	-	Accion International
A.I.D.	-	U.S. Agency for International Development
ATI	-	Appropriate Technology International
BKK	-	Badan Kredit Kecamatan--Indonesia
CDIE	-	Center for Development Information and Evaluation, A.I.D.
CHF	-	Cooperative Housing Foundation
CID	-	Council for International Development
CJEDP	-	Central Java Enterprise Development Project-Indonesia
DAI	-	Development Alternatives, Inc.
FID	-	Financial Institutions Development Project--Indonesia
HIID	-	Harvard Institute for International Development
IDB	-	Inter-American Development Bank
IIDI	-	Institute for International Development, Inc. (Opportunity International)
KUPEDES	-	General Village Credit Program of the Bank--Indonesia
NTF	-	New Transcentury Foundations
OEF/I	-	Overseas Educational Fund/International
OI	-	Opportunity International, Inc. (formerly IIDI)
PADF	-	Pan American Development Foundation
PfP	-	Partnership for Productivity
PISCES	-	Program for Investment in the Small Capital Enterprise Sector
PVO	-	Private Voluntary Organization
SEDP	-	Small Enterprise Development Project--Ecuador

SRI	-	Stanford Research Institute
VITA	-	Volunteers in Technical Assistance
USAID	-	U.S. Agency for International Development, term commonly used to refer to A.I.D. field Missions
WOCCU	-	World Council of Credit Unions
WWP	-	Women's World Banking

1. INTRODUCTION AND OVERVIEW

1.1 Introduction

Tens of millions of the world's poor work as individuals or in small groups to collect, manufacture, or sell goods and services in order to earn a livelihood. A significant proportion of economic activity in developing countries is conducted--by choice or by necessity--in very small economic units--microenterprises.[1] Some individuals are drawn into microenterprises by the incentive for profit signaled by the demand for goods and services; others are left no alternative but to struggle to subsist through self-employment alongside, and in competition with, others existing outside the "formal" economy. Firms employing 10 or fewer full-time workers account for between 40 and 90 percent of manufacturing employment in developing countries. In rural areas, microenterprises account for the majority of manufacturing employment; in urban areas they commonly account for the majority of employment in the commerce and service sectors.[2]

Microenterprises have, in one form or another, been on the agenda of the development community for many years. The recent growth in their popularity among donors, development agencies, and governments is the result of the convergence of political and developmental concerns. Employment issues dominate the political and economic agenda in almost every developing country. Problems of urban poverty, declining labor absorption in agriculture, and slow rates of job creation in nonagricultural sectors have intensified the need for adoption of creative strategies for employment and income generation. Efforts that foster the development of indigenous entrepreneurial talent and that support the economic initiatives of the poor offer an attractive grassroots weapon for attacking the problems of poverty and underemployment.

While there are few who disagree with the goal of enterprise development defined in this way, considerable debate remains

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[1]The term microenterprise refers to firms with approximately 10 or fewer employees engaged in manufacturing, service, or commerce. A more thorough definition of microenterprise is provided in Section 2 of this report.

[2]More detailed statistics on the importance of microenterprises in developing economies can be found in Liedholm and Mead (1987).

about what, if anything, ought to be done to promote microenterprise.[3] Among the unresolved questions are the following:

-- Under what conditions can a growing microenterprise sector make a positive and sustainable contribution to the process of development through its effect on broad-based growth, generation of productive employment opportunities, and more equitable distribution of income? Or is a growing microenterprise sector a pathology--a sector of the economy best absorbed into larger, more efficient and productive firms?

-- What approaches or types of interventions, if any, can effect a change in the pattern of development of the microenterprise sector? Is this change best accomplished by providing services directly to the beneficiary or through indirect means, such as policy, which influence the opportunities available for profitable business ventures?

-- Under what conditions can different approaches to microenterprise development generate high economic and developmental returns relative to competing uses of scarce public sector resources?

Embodied in these basic questions are numerous other questions that bear on what should and can be done to promote microenterprises. For example, what trade-offs, if any, are involved in targeting assistance to particular disadvantaged groups as compared with those best able to productively use project services? Are the poor best served by removing barriers to productive self-employment or by creating productive jobs in enterprises owned by others? The answers to these and other questions about the appropriate types and mixes of services, institutional delivery mechanisms, and the sustainability of benefits and

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[3]There also remains considerable debate on the role of microenterprise in the process of economic growth, a topic that is not addressed in this study. The controversy revolves around the relative dynamic efficiency of different sizes of firms and the effectiveness of supply-side interventions as opposed to structural adjustment and policy change. Despite the theoretical and strategic importance of these concerns, the empirical technology required to resolve the debates does not exist. This report is predicated on the assumption that A.I.D.'s program goals are well served by continuing to support interventions that generate relatively more benefits than costs and that reach the Agency's chosen target populations.

services are at the core of discussions on how to best reach the poor through enterprise development.

1.2 An Overview of the Stocktaking

This report is the initial output of "The Evaluation of the Effectiveness of Alternative Assistance Approaches in Microenterprise Development," a study (also referred to as the stocktaking) designed to assess what can be learned about the answers to the questions listed above from the accumulated experience of the U.S. Agency for International Development (A.I.D.) in the field of microenterprise development. The stocktaking study focuses on identifying projects and programs that have proven effective in generating and sustaining developmental benefits and on analyzing the factors responsible for their successful performance. The objectives of the study are to determine which techniques and approaches to microenterprise development are best suited to advancing A.I.D.'s program goal of effecting broad-based economic growth and to specify the conditions that govern the choices among competing strategies.

The stocktaking consists of four interrelated components: (1) this background and conceptual overview paper, (2) a statistical analysis of A.I.D.'s current portfolio of microenterprise projects prepared by A.I.D.'s Center for Development Information and Evaluation (CDIE), (3) field assessments of ongoing projects and programs in 10 countries, and (4) a final report that synthesizes the findings of the previous three components.

The findings of the study are based on the review of a sample of 32 projects and programs supported by A.I.D. since 1977. Information on the projects was gathered from a mix of secondary evaluations and field visits. The following section discusses the criteria and process for selecting the projects for the stocktaking.

1.2.1 The Primary Sample: The Field Cases

A.I.D. selected the 10 countries and projects for the field visits, primarily on the basis of appropriate ongoing microenterprise activities, the expression of interest by the involved Missions, and scheduling considerations. The extent of regional coverage and the level of effort for each visit were established by the participating regional bureaus. In the end, the composition of the field visits was as follows:

Latin America and Caribbean

Ecuador	3 persons	3 weeks	1 project
Guatemala	3 persons	3 weeks	3 projects
Dominican Republic	3 persons	3 weeks	2 projects
Paraguay	2 persons	3 weeks	1 project

Africa

Senegal	3 persons	2 weeks	1 project
Cameroon	3 persons	2 weeks	1 project
Malawi	2 persons	1 week	1 project

Asia and the Near East

Egypt	4 persons	2 weeks	2 projects
Bangladesh	3 persons	3 weeks	1 project
Indonesia	4 persons	2 weeks	4 projects

1.2.2 Selecting the Secondary Sample

The question of which projects to include in the secondary sample presented a number of conceptual and practical challenges. The universe of candidate cases was largely specified by the scope of the evaluation and included A.I.D-funded projects that, to a greater or lesser extent, targeted assistance to microenterprises and for which some analysis of beneficiary impact was available. However, A.I.D.'s definition of microenterprises as firms with "approximately" 10 or fewer employees is fairly new, and many of the candidate projects did not limit their focus to this particular size grouping. Nevertheless it was possible to identify candidate projects, in broad terms, on the basis of the projects' intended beneficiaries.

The stocktaking's emphasis on the factors associated with successful project performance focused efforts on identifying reference material that not only offered thorough project descriptions but that also addressed the issue of beneficiary impact in some detail. Such a focus proved to be a more limiting criterion than was originally anticipated. While many evaluations discuss beneficiary impact, surprisingly few do justice to the issue. As a result, the stocktaking focused on field projects rather than on research or more general institutional support efforts that have a far less direct link with the beneficiary group. Excluded on this basis were the important centrally funded private voluntary organization matching grants program and much of the portfolio of the Bureau for Science and Technology.

However, a number of the projects that were included in the sample have been indirectly supported through these mechanisms.

In several cases, it proved difficult to distinguish between A.I.D. projects and the programs and institutions being supported. It is quite common to find microenterprise service-delivery institutions that draw on an array of external funding sources or that have been assisted in relatively limited ways through A.I.D. projects. For example, the well-known Badan Kredit Kecamatan (BKK) credit program in Indonesia has been the subject of a detailed A.I.D.-sponsored impact evaluation and has received project support for different purposes on several occasions. Only a portion of the beneficiary impact that has been reported for these particular cases can be directly attributed to the A.I.D. inputs. In these situations, comparability requires that the overall program be the subject of the analysis, but due caution must be used in attributing the results to the A.I.D. intervention.

From the set of projects meeting the general study criteria, an effort was made to cover a range of approaches to microenterprise promotion and as many different geographic regions and countries as possible. In practical terms, these decisions were strongly influenced by the timely availability of the key documents that served as the raw material for the study.

1.2.3 The Projects and Programs Reviewed in the Stocktaking

Table 1 presents the list of projects and programs included in the stocktaking.[4] The table describes the salient features of

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[4]Table 1 includes both projects and programs. A program is the activity of the implementing institution that delivers services to enterprises. The project is the A.I.D. mechanism that provides resources to the implementing institution. In many cases projects involve multiple implementing institutions and programs. The Indonesian Financial Institutions Development (FID) project, for example, involves three Government implementing agencies, four independent village financial institutional systems, and a state bank. The total A.I.D. contribution to this project is $14 million. To make best use of the available information, only two of the five FID "programs" have been included in the table--the BKK Village Financial Institution program and the General Village Credit (KUPEDES) State Bank Program. Other projects, such as Ecuador's Small Enterprise Development Program (SEDP), have been treated similarly.

Table 1. Projects/Programs Reviewed in the Evaluation--Summary Characteristics

Country	Project/Program Name	Beginning of A.I.D. Involvement	A.I.D. Funding ($1,000)	Implementing Institution Type	Source of External TA	Develop-mental Approach	Services to Enterprise	Desk/ Field Review
Asia and Near East								
Bangladesh	Women's Entrepreneurship Development Project	1982	877	Govt	None	F	Credit/TAT	D F
Indonesia	FID Project	1986	13,745	---	---	---	---	---
	FID/Badan Kredit Kecamatan	1986	ND	Govt	DAI	E	Credit	D F
	FID/KUPEDES	1986	ND	G-Bank	HIID	E	Credit	D F
Indonesia	CJEDP - Rattan Export Development Program	1985	1,400	G-Project	DAI	T	TAT, Policy	D
Indonesia	Puskowanjati Women's Cooperative	1984	505	Coop	None	E	Credit/TAT	F
Indonesia	Maha Bhoga Marga Foundation	1987	179	I-PVO	OI	E	Credit	F
Egypt	CEOSS Income and Employment Generation Project	1983	313	I-PVO	None	F	Credit/TAT	F
Egypt	Helwan Project Small Enterprise Loan Program	1982	181	G-Project	CHF	E	Credit	F
Africa								
Burkina Faso	PfP Rural Enterprise Development Project	1977	2,467	US-PVO	PfP/CID	F	Credit/TAT	D
Cameroon	Cameroon Co-operative Credit Union League	1975	4,800	C-Union	WOCCU	E	Credit	F
Chad	Chad Private Enterprise Project I & II	1984	2,051	US-PVO	VITA	T	Credit/TAT	D
Kenya	Nat Council of Churches Kenya - Small Bus Scheme	1981	275	I-PVO	None	F	Credit/TAT	D
Liberia	Nimba County Rural Technology Project	1980	4,264	US-PVO	PfP	E	Credit/TAT	D
Malawi	Rural Enterprise & Agribus Dev. Institutions	1984	---	---	---	---	---	---
	READI-Malawi Union of Savings and Credit Coop.	1984	1,388	C-Union	WOCCU	E	Credit	F
	READI-Development of Malawian Traders Trust	1987	760	Govt	PfP/Africare	T	TAT	F
Senegal	Community and Enterprise Development Project	1985	9,000	G-Project	---	---	---	---
	Small-Scale Enterprise Component	1985	ND	G-Project	NTF	T	Credit	D F
	Village Organization Component	1985	ND	G-Project	NTF		Credit/TAT	D F
Latin America								
Belize	National Development Foundation of Belize	1983	336	I-PVO	PADF	T	Credit/TAT	D
Colombia	Banco Mundial de la Mujer	1982	ND	A-PVO	WWB	E	Credit/TAT	D
Costa Rica	Aid to Urban Ent Through a Solidarity Guarantee	1982	65	G-Bank	PISCES	E	Credit	D
Costa Rica	Women In Business Program	1985	ND	US-PVO	OEF	F	TAT/Credit	D
Dom. Rep.	Asociación Para el Desarrollo de Microempresas	1982	1,085	I-PVO	ACCION	E	Credit/TAT	D F
Dom. Rep.	Asoc. Dom. Para el Desarrollo de la Mujer	1982	ND	A-PVO	WWB	E	Credit	D
Dom. Rep.	Dominican Development Foundation - PRODEME	1980	500	I-PVO	PISCES	E	Credit/TAT	D
Dom. Rep.	Pro de Asist Peq Empre/Fondo Para el Desarrollo	1985	ND	I-PVO	None	E	Credit/TAT	F
Ecuador	Small Enterprise Development Project	1987	4,500	---	---	---	---	F
	SEDP - Inst of Socioeconomic & Tech Research	1987	1,900	I-PVO	None	T	TAT	F
	SEDP - FEE and FED Component	1987	ND	US-PVO	ACCION	E	Credit/TAT	F
	SEDP - Carvajal Foundation Component	1988	ND	L-PVO	Carvajal	T	TAT/Credit	F
Guatemala	Small Enterprise Assistance Foundation	1984	ND	I-PVO	OI	E	Credit/TAT	F
Guatemala	Women's Development Foundation	1981	305	I-PVO	None	T	Credit/TAT	F
Guatemala	Found. for the Dev of Socioeconomic Programs	1985	---	I-PVO	---	---	---	---
	FUNDAP - Momostenango Project	1985	637	I-PVO	ATI	T	TAT	F
	FUNDAP - Nahula Project	1988	195	I-PVO	None	T	TAT	F
	FUNDAP - Prog for the Support of Microent.	1988	200	I-PVO	ACCION	E	Credit	F
Honduras	National Development Foundation of Honduras	1985	1,000	I-PVO	PADF	T	Credit/TAT	D
Honduras	Women in Business Program	1985	ND	US-PVO	OEF	F	TAT/Credit	D
Jamaica	National Development Foundation of Jamacia	1982	500	I-PVO	PADF	T	TAT/Credit	D
Paraguay	Fundacion Payaguaya de Cooperacion y Desarrolo	1985	370	I-PVO	ACCION	E	Credit/TAT	F
Peru	Urban Development Fund	1982	13,000	G-Bank	None	T	Credit	D

Notes: ND - No data
--- - Not relevant
I-PVO - Indigenous Private Voluntary Organization
A-PVO - Affiliated Private Voluntary Organization
US-PVO - U.S. Private Voluntary Organization
L-PVO - Latin American Private Voluntary Organization
T - Enterprise Transformation Approach
E - Enterprise Expansion Approach
F - Enterprise Formation Approach
TAT - Technical Assistance and Training
D - Desk Study Review
F - Field Review
G-Bank - Government Bank
G-Project - Government Project
C-Union - Credit Union
Refer to Glossary for acronyms not defined in this table.

each case, including the country, the beginning of A.I.D.'s involvement, the total A.I.D. contribution to the project, the type of implementing institution, the source of external technical assistance, the developmental approach of the program (see Section 4), and the services provided by the project. Summary descriptions of each project are included in the appendix.

1.3 The Purpose and Organization of This Report

Having discussed the overall goal of the stocktaking and the projects included in the sample, the remainder of this report will step back from the detailed analysis of individual cases to provide an overview of several conceptual issues underlying the stocktaking exercise. During the early stages of the stocktaking, it became increasingly clear that very different meanings were being attached to the term "microenterprise development," and that these differences had important implications for the way questions about "what can and should be done" were both asked and answered.

For example, there is little common ground and even less meaningful communication between development specialists who view microenterprise development as a vehicle for redistributing income to the poor and those who see it as an engine of private sector growth. Both speak of "microenterprise" and both refer to the same examples of successful interventions. Yet even with these common points of reference on a relatively small playing field, their visions of microenterprise development are worlds apart. A similar incompatibility can be found in discussions about policy versus projects, sustainability of the enterprise versus sustainability of the service institution, market solutions versus subsidization, and so on.

In order to even begin to address the question of what can and should be done about microenterprise development, some basis for sorting through these issues was necessary. This paper offers a conceptual overview for the stocktaking. It would perhaps be more accurate to view the conceptual overview as a series of steps in the process of sorting through a mixed bag of ideas, enterprises, programs, and projects with the goal of finding some conceptual hooks for grappling with the complexities of microenterprise development.

2. A BRIEF HISTORY OF MICROENTERPRISE DEVELOPMENT

As was noted earlier, microenterprises in one form or another have been of interest to those in the development community for many years. The current knowledge in enterprise development represents the confluence of three major streams of work begun over 35 years ago. Since remnants of these approaches are clearly visible in recent debates on microenterprise, it may be helpful to briefly review how we got to where we are.

2.1 The Intellectual Background

The earliest work that bears on today's events falls under what can be called the "classic" small-scale industry approach. In 1958, the Stanford Research Institute (SRI), with support from the Ford Foundation, undertook a program of basic research on small industry (defined as firms with fewer than 100 employees). The general thrust of SRI's work was to promote the modernization of small industry as an element in securing balanced economic growth. The survival of very small industries (those with nine or fewer workers) in the face of growing competition from more efficient manufacturers was found to depend on their ability to adapt to the realities of economic change, searching out market niches in which their activities complemented rather than competed against modern factory production.[5] The SRI effort was influential in laying the groundwork for the adoption of a variety of programs for small industry support in a number of countries.

Much development effort focused on India, and that experience became a model for other countries. The so-called "India model" was characterized by large-scale provision of a comprehensive range of services (industrial estates, infrastructure, credit, raw materials, research and development, technical advice, and so on) on a highly concessional basis, protection of small firms through market "reservation" schemes, and centralized public sector administration. The India model represented an explicit subsidy to the beneficiary enterprises. It was expected that some firms would eventually "graduate" from the need for protection; others would be sheltered for life. Institutional sustainability was assumed. As long as the concerned government department continued to receive its annual budget, the program would be able to continue to deliver services. A few of these

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[5]The most thorough elaboration of this approach is in the classic book by Staley and Morse (1965).

programs received A.I.D. support, but they were more commonly undertaken in conjunction with the World Bank or agencies of the United Nations. Such programs are found throughout the developing world, with notable examples in India, Nigeria, Kenya, and Indonesia.

The second major stream emerged from the International Labour Organization's work on the informal sector. In 1967, the International Labour Organization launched its World Employment Programme, which served as an umbrella for several country studies, focusing on the problem of unemployment, that were undertaken in the late 1960s and early 1970s. The most significant accomplishment of the program was to focus attention on the problem of underemployment and on the informal sector.

The informal sector, it was argued, was a reflection of the formal sector's inability to provide sufficient demand for a growing labor force and of the survival-oriented need for self-employment on the part of those left behind. Largely concentrated in urban population centers, the informal sector was, to some, a reflection of labor market pressures resulting from the combination of population growth and the influx of migrants from rural areas. To others, the sector was a more general structural consequence of the failure of the demand for labor to keep pace with the growth of output. The informal sector was viewed not as an instrument for development but, rather, as a pathology. To develop the informal sector meant to eliminate it by increasing employment opportunities in rural areas and by increasing the demand for labor through comprehensive policy reforms, including infrastructure investment, tax changes, exchange rate adjustments, land reform, educational programs, health services, and population programs.

The third stream of work in this area arose from investigations into the nature of the rural economy in the early 1970s to mid-1970s and represents the flip side of the predominantly urban informal sector. Detailed empirical studies in a number of countries revealed that a surprisingly large share of the income of rural households came from nonagricultural sources. Enterprises long regarded as relatively insignificant turned out to be important, integrated components of the rural economic landscape. As a result of these findings, rural nonfarm enterprises came to play a major role in the theories of agricultural-led growth popularized in the mid-1970s.[6] These early studies shed little light on what should be done to promote the growth of these activities, but they did emphasize the central role of rural

[6]See, for example, Mellor (1976).

(primarily agricultural) income growth as the engine driving employment generation.

Without delving further into historical detail, it can be said that by the mid-1970s, development practitioners increasingly recognized that "trickle down" development based on large-scale, capital-intensive industrialization was not generating enough jobs to keep pace with a rapidly growing work force. In searching for alternative strategies with greater prospects for employment generation and for more equitable distribution of benefits, the experts began looking seriously at the potential of small-scale, labor-intensive enterprises in both rural and urban areas. Thus a growing amount of attention began to be given to small enterprise under a variety of approaches and with a variety of names--cottage industry, household industry, the informal sector, Z-goods, the intermediate sector, appropriate technology and technological choice, and rural non-farm employment, to name but a few. The experts' approaches to the idea of small enterprise also varied. They shared a common interest in equity, but differed in their emphasis on growth versus employment and on what could or should be done to realize their implied objectives. Nevertheless, all the approaches were affected by the fact that there was little concrete evidence to document either the developmental importance of small enterprises and microenterprises or the options for improving their performance through policies or programs.

2.2 A.I.D.'s Involvement in Microenterprise Development

There is no question that A.I.D. has exerted more influence on the evolution of small enterprise and microenterprise work than all other donor institutions combined. Since the mid-1970s, the Agency has actively supported assistance programs, the development of implementing and resource institutions, and a dynamic applied research and development program. It goes without saying that the way in which A.I.D. conducted its programs had a strong bearing on the evolution of the various approaches to microenterprise development.

The 1973 New Directions foreign assistance legislation stressed that development aid must reach the poor majority and that it must do so with developmental impact. It was upon this foundation that the role of enterprise development would grow in the Agency's program of support for private voluntary organizations (PVOs), as a component of its work on urban development, and as one focus in efforts on rural development. Since 1981, private enterprise development has been a major thrust throughout the A.I.D. program.

While the vast majority of expenditures for enterprise development were made by USAID field Missions, the influence exerted by centrally funded projects was significant. The PVO support programs made important contributions to the development of the capacity of several such U.S.-based organizations--for example, ACCION, the Overseas Education Fund (OEF), the Institute for International Development, Inc. (IIDI, now Opportunity International), Technoserve, Partnership for Productivity (PfP), and the Pan American Development Foundation (PADF)--to serve as resources for Mission-funded projects. Institutionally defined approaches were developed, adapted, and applied in numerous countries.

The Program for Investment in the Small Capital Enterprise Sector (PISCES) I and II projects sponsored by the Bureau for Science and Technology from 1978 to 1985 searched for successful models for delivering services to very small urban enterprises and refined them through a series of experimental pilot projects. The projects, implemented by a consortium of PVOs under the direction of ACCION, helped the participating institutions make significant advances in their capability to aid microenterprise development. As a result, ACCION now works with 36 programs throughout Latin America and can boast that some of them are among the world's best.

During the same period, Michigan State University, through a series of cooperative agreements, undertook in-depth empirical studies of the rural and urban small enterprise and microenterprise sector, providing much of the data required to establish the importance of this sector of the economy. Researchers at Michigan State laid the groundwork for innovative approaches to enterprise development through subsector-based analyses and interventions.[7]

USAID Missions, working with government agencies, state banks, indigenous PVOs, and industry and trade associations, have designed and implemented projects to assist microenterprises. A.I.D. gets credit for what has become the dominant institutional model in microenterprise development: an indigenous PVO, with the support of a U.S.-based PVO, providing loans and some training and technical assistance to microenterprises.

The universe of A.I.D. projects designed to assist microenterprises is large and scattered throughout the Agency. An

[7]A more thorough review of A.I.D.'s role in the development of knowledge on small-scale enterprise and microenterprise can be found in Elisabeth Rhyne's 1987 review of the Bureau for Science and Technology's enterprise development portfolio.

internal Agency survey reports 116 current projects funded directly by field Missions in 40 countries. This number includes pure microenterprise projects and microenterprise components of larger projects. It is not clear whether this figure accurately captures the numerous small grants made to PVOs through operational program grants and through larger PVO cofinancing projects. Field projects accounted for approximately 90 percent of the $57 million spent on microenterprise projects in fiscal year 1988. The remaining 10 percent was accounted for by centrally funded projects sponsored by four Washington-based bureaus. A myriad of microenterprise programs are supported both directly and indirectly through centrally funded matching grants to PVOs. Because programs supported through these grants often receive Mission funds for specific projects in the field, it is difficult to count individual activities.

2.3 Recent Developments

In 1987, the U.S. Congress passed a continuing resolution requiring A.I.D. to devote at least $50 million to programs supporting microenterprise development during FY 1988, to develop microenterprise program guidelines, and to appoint an advisory committee to assist A.I.D. in developing the guidelines. The appropriations bill raised the required amount to $75 million for FY 1989. A.I.D. has responded to this legislative initiative by establishing an internal working group on microenterprise development and by appointing an advisory committee representing PVOs, businesses, credit unions, academia, and others knowledgeable in the field.

In October 1988, A.I.D. published a set of policy guidelines on microenterprise development (A.I.D. 1988a) establishing parameters for the Agency's activities in this area.

3. THE NATURE AND CHARACTERISTICS OF MICROENTERPRISE AND MICROENTERPRISE DEVELOPMENT

3.1 The Definition of Microenterprise

In the 1988 Microenterprise Development Program Guidelines, A.I.D provided a working definition of microenterprise, as follows:

> The microenterprise subsector includes the whole spectrum of labor-intensive productive activities ranging from rural-based agribusiness and handicraft production to urban-based trading, service, and manufacturing enterprises....
>
> As a working definition, subject to the following exceptions, microenterprises should have no more than approximately 10 employees. Special emphasis should be placed on small-sized and individually-owned productive activities....An attempt to define or limit the size of a microenterprise to approximately 10 employees, for example, would exclude from the program some enterprises that Congress desired to receive the benefits of the program, i.e., enterprises made up of poor people, such as rural, community-based firms owned and operated by 20 women or certain cooperatives. Furthermore, the objective of gradually advancing an enterprise to access formal sources of financing could be undermined with too severe a limit on the firms' number of employees. (pp. 1-2)

This section offers an overview of the nature and characteristics of the microenterprise sector with the objective of better understanding the challenges faced in microenterprise development. Initially, the boundaries of the sector are explored, in terms both of activities that are somehow more complex than microenterprises and of activities that are unable to gain access to even the microeconomy. This discussion is followed by an examination of the diversity within the sector and a brief summary of the implications of the discussion for microenterprise development.

The term microenterprise naturally directs attention toward firm size as its primary distinguishing feature. While from a practical point of view, firm size is a useful way of classifying enterprises, it tends to obscure important differences that have a direct bearing on the process and challenges of enterprise development. Microenterprise can be viewed as one stage on a continuum reflecting the relative complexity and sophistication of economic activity. Along this continuum, the microenterprise sector lies between the survival-oriented activities of those on the fringes of the economy and more complex and sophisticated small-scale enterprises.

3.1.1 Microenterprise Versus the Survival Activities of the Poorest of the Poor

Large numbers of people in developing countries are for a variety of reasons unable to traverse the relatively low entry barriers into the microenterprise sector. This group includes those struggling to eke out a living through whatever means possible. Their activities are marginal and are motivated by the drive to survive rather than by an urge to prosper. The income they earn from their activities is insufficient to allow for the accumulation of resources, human or financial. The underemployed, the vast number of hawkers and street vendors found in many countries, the collectors of cigarette butts and discarded plastic bags, subsistence agriculturists, and many women engaged in traditional household activities fit into this category.

These individuals are denied access to more profitable enterprises by social and cultural barriers or because they lack education, skill, experience or opportunity to gain experience, financial resources, and access to markets. In addition to those with no access to resources or markets, there are those whom Malcolm Harper (1988) has aptly characterized as "submarginal," including "refugees, the disabled, ex-offenders, women in some societies, and minority or occasionally majority communities who have for some reason been excluded from the economic mainstream."

3.1.2 Microenterprise Versus Small-Scale Enterprise

Microenterprise is bounded on the upper end by small-scale enterprise. Table 2 describes a number of dimensions by which microenterprises can be differentiated from larger firms. These dimensions are by no means universally valid, but they nonetheless point to several factors of significance. If there is a single most critical distinction between the two, it is the relative ease of entry into the microenterprise field compared with entry into larger scale enterprise: The technical and business skills required are simple, initial investment is low, products or services are familiar and require little quality control, and markets and marketing systems are not complex.[8] Ease of entry results in intense competition among microenterprises, which

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[8]The "barriers to entry" framework is adapted from the work of Peter Kilby, particularly his 1982 report on small-scale industry in Kenya. While Kilby focuses on the distinction between traditional and modern small-scale enterprise, much of his argument can be easily adapted to microenterprise.

Table 2. Distinguishing Characteristics of Microenterprises and Small Enterprises

Characteristic	Microenterprise	Small Enterprise
Number of Workers	Roughly 10 or fewer full-time workers.	Roughly 10 to 50 full-time workers.
Work Force	Primarily family labor.	Largely hired workers.
Sources of Finance	Rely almost entirely on cash transactions, informal credit markets, and supplier credit. Start-up commonly funded by family savings.	Limited access to formal financial markets; commonly rely on informal financial markets, supplier credit, and reinvested earnings.
Management	Little management specialization.	Some specialization in management functions.
Technology	Traditional--based on widely existing technical knowledge, existing labor skills and existing raw materials supplies.	Less traditional--innovation required in some aspect of the transformation process.
Products	Products and services are generally simple and unsophisticated; prices are low; cater to basic needs of low-income consumers.	Products and services range from simple to more complex; span a relatively broad range of consumer types.
Markets	Typically serve highly localized markets through simple marketing channels.	Marketing patterns somewhat more complex, reflecting innovation in raw material procurement or in output sales.
Competition	Competition intense as a result of ease of entry and localized market area.	Competition somewhat less intense because of barriers to entry.
Earnings	Returns to owners/entrepreneurs generally very low.	Returns higher but subject to greater variation and risk.

forces earnings to very low levels. Relatively slow rates of income growth for the poor urban and rural consumers who make up the majority of the market for microenterprises reinforce competitive pressures on prices and returns. Microenterprises do not ordinarily have either the financial means or capacity to assume the risks associated with growth.

As firm size grows, so does the complexity of the tasks facing the enterprise. With this complexity comes increased risk. A greater volume of sales must be made on a regular basis, necessitating active efforts to minimize disruptions in material supply or product sales caused by logistical or cash flow problems. A larger labor force--which must be paid--requires training, direction, and coordination. The skill and innovation needed to manage such an effort, in and of themselves, erect a barrier to potential competitors that will support somewhat higher earnings. Since the goods and services produced and sold by small enterprises serve a wider range of consumers, there may be market niches that offer solid opportunities for enterprise growth.

3.2 Heterogeneity Within the Microenterprise Sector

Microenterprise lies between the survival activities of the poorest of the poor and small-scale enterprise. There are barriers to entry into the microenterprise sector and even more substantial barriers between microenterprise and small-scale enterprise. There is no generally agreed-upon way to carve up the microenterprise sector into pieces that have particular relevance for assistance programs. The most obvious possibilities would include firm size, type of enterprise (manufacturing, service, commerce), industry (subsector) in which the enterprises compete, location (urban, small town, rural), type of technology (traditional, less traditional), linkage to the economy (product markets, labor and capital markets, material suppliers), entrepreneurial motivation (subsistence, growth), organization of production (household, factory), and so on. One way of understanding the implications of the heterogeneity, however, is to consider some examples.[9]

Example One: In rural areas of Rwanda, there are large numbers of carpenters who use hand tools only and who work without paid employees (although in some cases there are a few employees or unpaid family assistants). Most of the carpenters are

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[9]These examples were developed with the assistance of Donald Mead, Michigan State University.

graduates of an intermediate-level technical training program; that is, they have had 2 or 3 years of technical training after primary school. Virtually all of these microenterpreneurs produce a limited range of very simple products (doors and windows, chairs and tables, beds) for very local rural markets. Competition is fierce, incomes are low. The situation could be summed up as one in which there are too many people with the same low skill levels producing too limited a range of products for too restricted a local market.

Altering that situation would require that some of these enterprises be assisted to produce alternative goods for sale in new or different markets (improved doors or windows for sale in towns, wood-based agricultural implements, and so on). In some cases, this would probably require the use of somewhat more sophisticated technology, probably including some machines. The purchase of such machines would almost certainly require some credit.

Example Two: It has been estimated that nearly 30 percent of rural houses in Rwanda are roofed with tiles, 25 percent with corrugated sheet metal, and over 40 percent with thatching. In general, the tiles are made by rural producers in simple, small-scale productive units turning out a product that is low in price and even lower in quality. An improved technology using a simple machine to produce tiles made from fiber-reinforced concrete has been developed in Europe and successfully tested in various countries of Africa.

The introduction of that improved technology in Rwanda would have two requirements: first, the careful introduction of the technology itself, including attention to quality control as well as to the development of an appropriate scaffolding on which the tiles are placed. Beyond this, for the activity to be financially viable, the current policy of promotion for the one large-scale enterprise producing corrugated sheets would need to be modified. At present, that enterprise is permitted to import its all-important raw materials without tariffs or other restrictions at the official exchange rate, which is somewhat overvalued, so that the price of the sheets is artificially low. An equilibrium exchange rate would create a situation in which the production of improved tiles would be financially profitable.

Example Three: In an Egyptian village there are a number of women who knit farmers' hats. The women are paid on a piecework basis, with the yarn provided by a dealer, who also handles the marketing of the finished hats. It has been suggested that small amounts of credit would permit these women to buy their own yarn, knit the hats, and sell the product directly to urban retailers, thereby raising their income.

In the long run, the village hatmakers in Egypt will (and probably should) disappear. Their incomes are very low, and their ability to raise their incomes is severely limited. The ultimate target must be for the economy to grow enough to create profitable job opportunities so that people are not forced into such low-paying jobs. In the meantime the minimalist credit intervention can be a highly desirable means of bringing some increases in income to the knitters.

By almost any definition, the three cases described above would be classified as microenterprises. As they operate now, in each case the activity is generally in the hands of production units involving at most three or four people (most have only one), with virtually no mechanization. Yet each of the three is different in its potential for income growth and productive employment. As is outlined below, each case also requires fundamentally different types of interventions to facilitate such growth, since in each case the producers face different constraints.

-- In the first case, microenterprise promotion would involve product and market development, probably associated with the introduction of improved technology. To implement such changes, some credit may be needed, but in the absence of such changes, credit has little to offer.

-- In the second case, the improved technology is known, but it needs to be introduced and popularized, again, probably along with some credit (the tile-making machines cost about $5,000 delivered to Rwanda). But in order for the activity to be financially viable, a change in policy would also be needed (to modify the existing effective subsidy of the large corrugated sheet factory).

-- The third case might be thought of as a case of "minimalist credit": small loans might by themselves help to raise incomes of existing microenterprise producers through the transfer of income from traders to producers.

3.3 The Challenges of Microenterprise Development

From the standpoint of enterprise development, the preceding discussion has at least three important implications.

1. The transformation of a microenterprise into a small enterprise is not easy. It is likely that only a select few microentrepreneurs have the capability or interest to make the change. The risks associated with the transformation are probably larger than most poor people or financial institutions are willing to absorb in the absence of risk-reducing assistance.

2. The relative ease of entry into the microenterprise sector creates the possibility that clients of assistance programs may achieve improvements at the expense of others in the sector. If one enterprise increases its production or sales and if demand is not growing, then another firm's output or price must fall. If demand is growing, it is likely that a firm would enter even without external assistance. In the absence of productivity increases, successful provision of assistance may represent a transfer of benefits from nonassisted firms to assisted firms rather than a net gain for the economy.

3. The heterogeneity of microenterprises implies that the opportunities for growth or increased earnings for microenterprises, the constraints operating on the firms, and the type of assistance required vary considerably from one situation to another. While there is little concrete evidence on the subject, it is probably true that many attempts to promote enterprises have failed because of the inability of projects to cope adequately with the diverse needs of the clientele. And, in cases where assistance has been appropriately tailored, the costs per unit of benefit may become prohibitive or the reach of the intervention may be extremely limited.

3.4 Approaches to Microenterprise Development

Given the diversity inherent in the microenterprise sector, it is not surprising that development institutions have approached microenterprise development from a number of different perspectives. The various approaches share roughly similar goals but differ in their target populations, the types of services provided, the institutional structure and organization of the programs, and the tactical details.

Microenterprise projects are unique responses to particular opportunities and constraints in varied environments. Individually, each represents a serious attempt to attain particular goals and to meet the needs of various constituencies within the constraints--human, financial, and environmental--found in their respective contexts. Nevertheless, there are important similarities across projects that permit the identification and specification of three broad approaches to microenterprise development.

The three approaches, which are differentiated by their developmental goals and target population, are (1) the enterprise formation approach, (2) the enterprise expansion approach, and (3) the enterprise transformation approach.

The enterprise formation approach aims to integrate highly disadvantaged groups or individuals from the survival economy into the microeconomy. Programs using this approach are sometimes referred to as community development programs because their enterprise development work is frequently embodied in a broader social development program. These programs often serve a relatively large proportion of new entrepreneurs and offer a comprehensive range of services focused on the creation of rudimentary business skills. Credit is almost always tied closely to training and technical assistance, loans are relatively small and may be subsidized. The high per-beneficiary costs typically incurred by these efforts are justified by the expectation of high social returns in terms of poverty alleviation and community growth. Generally speaking, much of the direct benefit of the enterprise formation approach is in the form of income generation rather than of employment.

The goal of the enterprise expansion approach is to improve the performance of microenterprises. This approach is essentially marginalist, in an economic sense, because of its implicit emphasis on small, achievable improvements across a relatively large number of firms. Under programs using this approach, some firms may graduate to small-enterprise status, but the dynamic is governed more by natural selection than by project effort. These programs commonly focus on providing credit with or without general business training, and many of these programs have evolved toward a minimalist credit-only orientation in an effort to reduce operational costs. Loans are typically for short-term working capital needs, and interest rates may be relatively high. Loan size is small, and screening is often based on some form of character reference and repayment history. Benefits in the marginalist approach often are associated with both income growth and decreased underemployment.

The third approach explicitly strives to graduate its clients from the microenterprise sector. Programs following the enterprise transformation approach most often provide an integrated mix of credit, training, and technical assistance to a select group of clients. Loans are larger and are used to fund fixed capital as well as working capital needs. Interest rates are often subsidized. Screening is generally based on project feasibility and participation in the training program. Per-beneficiary operational cost is high and is justified in terms of a larger expected benefit. Since firms assisted through this approach are typically somewhat larger than those assisted through the other approaches, employment generation plays a relatively larger role in the composition of project benefits.

Figure 1 illustrates the differences among the three approaches. The three circles of the diagram represent the survival groups, microenterprises, and small-scale enterprises. Although there is some overlap between the groups, movement from one circle to the next requires a transformation in order to overcome the barriers to entry into the higher level form of enterprise. The relative size of the circles does not necessarily correspond to the size of the population group, nor is there an expectation that enterprises will necessarily graduate from one group to the other. At all levels, there is likely to be an exit, particularly as some individuals graduate from self-employment to employment in other firms.[10]

In terms of the diagram, both the enterprise formation and enterprise transformation approaches are transformation oriented. This accounts for their relatively heavy emphasis on technical assistance and training and for their inherent paternalism. The microenterprise expansion approach, on the other hand, seeks improved performance within the microenterprise circle and can support and enable rather than guide. This accounts for the credit orientation of this approach.

Needless to say, there is considerable variation within each of the approaches outlined above, and not all programs fit neatly within one approach. Programs are implemented by different types of institutions, and programs and projects are structured along different lines. Most programs provide services directly to target firms, but some focus on improving the environment in which the enterprises operate. Many of the organizations active in microenterprise development have well-defined models: ACCION's solidarity groups, Technoserve's community-owned enterprises, OEF/I's focus on rural women, PADF's national development foundations, and so on. Nevertheless, much of the variation can be understood in terms of the three broad approaches outlined above.

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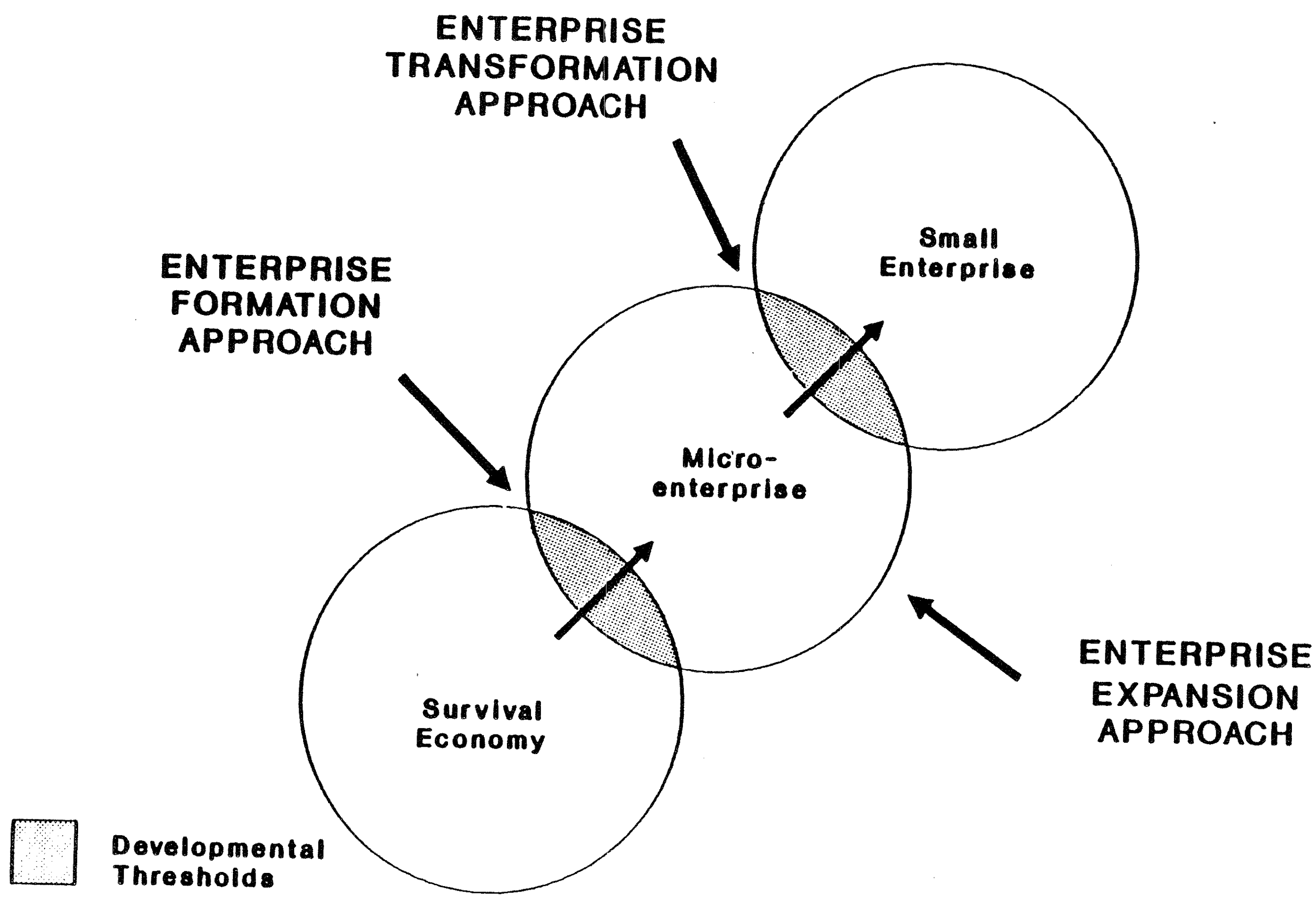
[10]Some would agree that this change to formal employment may represent the most desirable form of transformation for most economically inactive microenterprises.

Figure 1. Approaches to Microenterprise Development



4. ASSESSING THE PERFORMANCE OF MICROENTERPRISE ASSISTANCE PROGRAMS

This section explores some of the issues involved in obtaining practical and meaningful indicators of program performance. Section 4.1 addresses the assessment of the beneficiary impact of microenterprise development, and Section 4.2 examines cost considerations, including cost-effectiveness. Section 4.3 focuses on institutional issues, particularly the question of institutional sustainability.

4.1 The Components of Beneficiary Impact

Beneficiary impact is the cornerstone of program performance. For a program to be successful, the services provided by the implementing organization must have a demonstrable impact on the performance of beneficiaries. Moreover, these benefits should represent a net gain to the economy rather than a redistribution of benefits away from nonassisted firms.

Six considerations are relevant to assessing the beneficiary impact of microenterprise development programs: direct beneficiary impact, distribution of benefits, indirect benefits, displacement, social benefits, and other, nonquantifiable benefits. Each component is considered in turn, and all are summarized in Table 3.

1. Direct beneficiary impact. Direct beneficiary impact measures improvement in the performance of assisted enterprises resulting from the application of program supplied inputs or the influence of program-induced environmental changes. It is a function of the magnitude of the impact, the sustainability of the improved performance, and the number of beneficiaries. The preferred measure of enterprise performance is enterprise income.[11] Other commonly used statistics--changes in production, sales, or profitability--serve as proxies for enterprise income.

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[11]Enterprise income or value added is defined as the revenue of the enterprise less all expenses paid to other firms. Once these bills are met, the remaining sum is available to cover the costs of land (rent), labor (wages), and capital (interest), with the balance representing profits. For many microentrepreneurs, this definition of profit includes returns to family labor, the entrepreneur's labor, and the so-called return to entrepreneurship.

Table 3. Criteria for Assessing Beneficiary Impact

Criteria/ Constituent Variables	Performance Indicators	Empirical Proxy Variables
Direct Beneficiary Impact		
Magnitude of the Benefits	Incremental change in real value added, incorporating before/ after and with/without project dimensions.	Observed change in real income (or other available indicator) with reasoned attribution to project input and exclusion of nonproject influences.
Sustainability of the Benefits	Long-term continuation or expansion of direct benefits.	Evidence of enterprise's capacity to maintain production and sales at new level; absence of continuing subsidy embodied in project services.
Number of Beneficiary Enterprises	Number of beneficiaries.	Number of beneficiaries.
Distribution of Benefits	Proportion of benefits accruing to poorest segments of population and women; additional employment brought about by changes in enterprise income.	Proportion of benefits accruing to poorest segments of population and women; additional employment brought about by changes in enterprise income.
Indirect Benefits	Changes in performance of nonassisted firms that result from forward and backward linkages with assisted enterprises.	Ordinarily computed from firm-level budget data for assisted and "linked" enterprises.
Displacement	Changes in performance of nonassisted firms that result from competition for market share, factors of production, or materials.	Requires performance data from competitive nonassisted enterprises and understanding of competitive structure of affected industries.
Social Benefits	Increases in participation, attitudinal change, solidarity, and family well-being.	Quantifiable measures of participation, attitudinal change, solidarity, and family well-being.
Other Benefits	Contribution of program to policy reform; introduction of new entrepreneurial skills and motivations; political integration of beneficiary groups; and replicability.	Evidence of same.

The sustainability of the benefit refers to the capacity of the beneficiary to maintain or expand improvements over the long term. Key issues include the sustainability of the firm's market position, evidence of some permanent change in the firm's structure or behavior in response to project inputs, and the absence of any continuing subsidy embodied in project services. The last point is particularly significant, since early inducements for participation or "hidden" subsidies may give beneficiaries a competitive advantage apart from the direct influence of the inputs.

2. The distribution of benefits. The distribution of benefits refers to the relative value placed on benefits that accrue to priority target groups. Microenterprise development has attracted the attention of the Congress and the donor community as an effective means of generating income and productive employment for those with the greatest need, the absolute poor and women.

The employment impact of microenterprise development is a second type of distributional issue. Employment is often discussed along with income in the context of direct beneficiary impact, but it is more appropriately treated in terms of the distribution of enterprise income. Employment benefits result from wages paid from enterprise income.

3. Indirect benefits. Indirect benefits are gains for other economic actors precipitated by increased beneficiary income. The most important of these for microenterprise projects are benefits to suppliers that result from increased demand on the part of assisted enterprises (backward linkages), and benefits realized by the firms that meet the increased demand for goods and services generated by increased income (consumption effects or income multipliers, leveraged benefits). Both backward and consumption linkages are directly related to the size of the direct benefit flow. Except in cases in which the program actively seeks to create benefits through indirect linkages, these effects can be set aside for most evaluations since they merely serve to inflate the final benefit total.

4. Displacement. Of greater concern in assessing beneficiary impact are indirect losses due to displacement--losses incurred by other enterprises as a result of the increased sales of assisted beneficiaries. Displacement, when it results from increased productivity on the part of assisted firms, is a necessary part of economic development. Presumably, firms capable of producing at a lower cost will increase their sales at the expense of other less efficient enterprises. However, without productivity gains, increased earnings will result from embodied subsidies or nonsustainable improvements. In such cases, dis-

placement losses to other nonassisted firms or potential entrants can potentially cancel the direct gains to beneficiaries.

There is little empirical evidence on displacement. It is usually overlooked in evaluation approaches that look only at beneficiaries and that are not based on a careful examination of how firms compete for market shares. Practically all displacement occurs within an industry. Assisted shoemakers displace others in the shoe business, not furniture makers. To estimate the actual or potential significance of displacements requires considerable familiarity with the competitive structure of local industries.

5. Social Benefits. Most authorities consider social benefits to be a significant output of microenterprise programs, but such benefits are notoriously difficult to classify and quantify. Maria Otero (1987a) has suggested that social impacts be organized under four categories: participation, attitudinal change, solidarity, and family well-being. These benefits are likely to be most important for projects that are oriented toward community development or that serve the poorest entrepreneurs in the microenterprise sector. Some organizations have developed sophisticated methodologies for measuring and monitoring the flow of social benefits. There is some agreement among authorities that this type of benefit is generally greatest when the projects achieve economic success. Like indirect benefits, therefore, social benefits tend to magnify the impact of successful interventions.

6. Other types of benefits. Microenterprise projects can also result in several other types of benefits that may be important but are exceedingly difficult to quantify.

-- Projects can contribute to the success of policy dialogue by generating information and by providing access for both the program and A.I.D. to key policymakers or policy discussions.

-- Projects may create dynamic economic benefits--that is, they can introduce entrepreneurial impulses and skills that will impart a higher level of skill and efficiency to the economy. By their very nature, these benefits will take time to manifest themselves.

-- Microenterprise projects are valued by some for their political benefits in integrating poor urban entrepreneurs of the informal sector into the body politic, especially in Latin America.

-- A single project may develop a replicable intervention approach or model that can be implemented elsewhere at a far lower project development cost.

However, much like the indirect and social benefits discussed above, these types of outputs generally depend on successful economic performance and are more likely to magnify the benefits of an already successful intervention.

4.1.1 Issues in Assessing Beneficiary Impact

Despite the critical importance of beneficiary impact in making informed judgments about the success of microenterprise projects, there is little concrete evidence on the subject. The evaluations reviewed in this study were selected largely because they place relatively more emphasis on beneficiary impact than others. For the most part, however, even these evaluations focus primarily on the performance of intermediary institutions and pay little attention to the questions of beneficiary impact. This lack of information is not unique either to A.I.D. among donors or to microenterprise among other types of development activities.

There are reasons for this neglect, some of which are quite legitimate. Evaluations are ordinarily conducted during the life cycle of a project to fulfill specific procedural requirements rather than to test the fundamental assumptions of the project's design. Many of the most challenging issues faced during project implementation are institutional. If the intermediary organization fails to develop the capacity to deliver the requisite services effectively, the question of beneficiary impact is irrelevant. At the same time, it is far simpler and cheaper to evaluate the performance of a single organization that presumably maintains auditable financial records than a large collection of microenterprises that do not. This is particularly relevant, given the awkwardness of committing sizable amounts of money to evaluate what are usually micro-sized microenterprise projects.

Ascertaining the impact of project inputs requires consistent, accurate measurements of impact for at least two points in time--one before the assistance has been received and one after the inputs have had the opportunity to influence performance.[12] The observed change in the performance of assisted enterprises then must be compared with changes in the performance of similar, nonassisted enterprises. A wide array of factors can influence enterprise income, project inputs being but one. The "with and without" dimension is essential for determining the proportion of the change attributed to the project. Only by accounting for both the before and after dimension and the with and without dimension can the incremental impact of project inputs be measured.

In the studies reviewed, analysis of changes in enterprise performance has been based on some combination of program-generated data, one-shot surveys conducted by evaluation teams, and in-depth interviews with project staff and program beneficiaries. Emphasis has been placed on changes in employment (total and per enterprise), trends in sales, and in several cases, changes in value added. While data of this sort are an indication of the existence of positive impact, it is necessary to be cautious in drawing conclusions from them.

It is quite common, for example, for an evaluator to survey a sample of enterprises participating in a program. The respondents are asked to compare their current performance with pre-assistance levels. The changes are computed, and it is reported that sales are up 32 percent, profits are up 12 percent, and employment is up 20 percent as a result of the project-supplied inputs. These figures may be reported in real terms, but more often they are not adjusted for inflation. Causality is

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[12]Empirical measurement of enterprise income is not without significant challenges. The most obvious is that microentrepreneurs rarely keep accurate business records. Attempts to reconstruct financial data from retrospective, one-time surveys are ordinarily of questionable reliability. Even the more sophisticated baseline/follow-up survey methodologies are extremely sensitive to changes in the definition of categories, caused either by the differing interviewing styles of enumerators or changed perceptions on the part of the interviewees. All of this assumes that entrepreneurs wish to give good information--an assumption that rarely holds true. Even when quantitative measures exist, they are ordinarily generated from nonrandom samples and are rarely subjected to statistical tests of significance. The variations reported in enterprise surveys can be substantial and may mean that apparent differences in averages are meaningless. It goes without saying that more thorough analyses, in which the influences of other variables are held constant, are rarely employed.

frequently established by asking the respondent if the changes have resulted from the loan or technical assistance.

4.1.2 Other Considerations in Measuring Impact

Even if the empirical problems related to the absence of records, seasonality, and possible respondent bias are assumed away, there are two concerns of particular relevance to microenterprise development that highlight the problems associated with this sort of causal impact assessment.

-- What is happening to nonbeneficiaries? Basing impact analysis on the results of interviews with a sample of beneficiaries or on the analysis of project records ignores consideration of the possibilities that nonparticipants may be performing just as well as participants, or nonparticipants are worse off precisely because participants have been assisted to become better off. The second possibility is likely where sectoral growth is absent and where projects are operating in stagnant economic conditions. The first is more likely in an economic environment that is growing or where project services are inappropriate.

-- What happens when the stimulus is withdrawn? An injection of funds or timely advice may indeed have a favorable impact on microenterprises--but is the benefit sustained? Do project-supplied inputs cause assisted enterprises to "rachet up" to a new level of performance, or do other constraints erode initial surges? In the case of working capital credit, the injection of funds may result in an initial increase in production and sales, but it is possible that the very same factors that caused a cash shortage in the first place--producing the wrong product for the wrong market at the wrong price, for example--may reappear. When a project delivers what it can efficiently deliver rather than what the client needs, such "constraint substitution" is likely to be prevalent. Clearly there is value in doing follow-up assessments to garner such information.

While impact has rarely been measured adequately, most evaluators perceive that the various projects have made a difference. Evidence of the strong demand for credit or other inputs is often presented, suggesting that the input does indeed have value to the beneficiary. This is particularly true, it is argued, in the case of credit accompanied by high repayment rates (suggesting productive use) and relatively high interest rates (suggesting value).

The intuitive appeal of this market test combined with its simple elegance should elicit a certain amount of skepticism about its use. The test is theoretically valid in only a limited range of cases. If the rate of interest reflects not only the opportunity cost of capital but also the full administrative and risk costs of lending, the measure is appropriate. Only three or four of the projects reviewed could meet this standard.

The implication of this discussion is that the analysis of the determinants of comparative performance that stands at the center of this study rests on an extremely weak foundation. In the absence of reliable and consistent impact measures across projects, it is not possible to discriminate among the differential sources of successful performance. This does not mean, however, that there are not interesting and important conclusions to be drawn from the kinds of information that do exist; it means only that the findings are not likely to be as empirically robust as might be desired.

4.2 The Costs and Cost-Effectiveness of Microenterprise Programs

The ratio of the present value of benefits to costs provides the ideal standardized measure of program performance. In the absence of reliable measures of program benefits, however, the ratio of various intermediate indicators of performance to costs may be compared across programs to assess the relative cost-effectiveness of different approaches. Two different measures of cost-effectiveness are examined in this evaluation: cost per program beneficiary and cost per dollar loaned.

Cost-effectiveness is expected to vary widely across programs. Such differences are primarily the result of the different approaches or "technologies" of the programs. Transformational approaches spend more per beneficiary in the expectation of greater benefits per beneficiary. Nontransformational approaches generate fewer benefits per beneficiary and thus are far more conservative on the expenditure side. The effect of these significant variations hides the more subtle differences that might offer clues about relative efficiency across programs.

The costs of microenterprise projects include all of the expenditures associated with creating benefits. Because direct benefits to the enterprise are defined in terms of net income, it is not necessary to include costs incurred at the firm level.

Such costs are accounted for in the calculation of enterprise value added.

Costs ordinarily include all out-of-pocket expenses for program operations and administration, regardless of the source of the funds. The value of the loan fund and of funds loaned out is not considered under costs since such funds are expected to be repaid. However, the erosion of the fund due to bad debt and inflation is a cost and should be included. Costs, like benefits, must be adjusted for inflation.

4.3 Impact on Institutional Performance: Sustaining the Flow of Services

A.I.D. projects typically invest in creating or improving the capacity of an institution to deliver benefit-creating services. Except in extreme cases, the period of time needed to recover sufficient benefits to justify a project extends beyond the period of investment. Moreover, unless the absorptive capacity of the target group is reached, the more permanent the flow of services the larger the eventual flow of benefits. The sustainability of the service flow, therefore, is instrumental in determining the course of the stream of future benefits.

Three factors determine the sustainability of a service flow: financial sustainability, the financial capacity of the institution to continue program activities; organizational sustainability, the capacity of the organization to plan, manage, and perform the functions needed to continue the program; and external sustainability, the capacity of the institution to continue to operate and deliver services within its external environment.

Financial sustainability. Financial sustainability depends on the capacity of the implementing organization to secure funding to operate the program. These costs may be met through funds secured from external sources (donors, the host government, or philanthropic donations) or through internal sources (earnings generated from provision of program services or earnings from other commercial ventures that cross-subsidize the program).

Financial sustainability can be defined in several ways, depending on the kinds of costs that are included in the analysis. Administrative and operational costs are almost always included in the analysis of sustainability. Beyond these obvious out-of-pocket expenses, however, there is much less consistency across programs in the treatment of costs. Of particular importance is capital depreciation due to loan defaults and inflation.

One organization, for example, regularly produces an indicator of financial performance for each of its programs, but the indicator does not take into account capital erosion from inflation.

Program self-sustainability is achieved when earnings from the provision of services are sufficient to cover all of the costs incurred in service delivery. Self-sustainability is desirable for several reasons: it enhances the independence of the implementing organization, it may force the program to be more responsive to its clients who are paying the bills, and it implies that services are priced at market values undistorted by subsidy and inefficiency. It is worth noting that self-sustainability does not necessarily reduce the financial risk faced by the program. Earnings are just as risky (perhaps more so in the short run) as funds provided by external sources.

The self-sustainability issue can easily become confusing as it is applied across different types of projects, programs, and approaches. Some programs, particularly those with a strong credit orientation, place high value on moving toward full cost recovery through earnings. Other programs, especially those with a bias in favor of training and technical assistance, emphasize the sustainability of the enterprises that receive assistance rather than of the service delivery institution. These differences reflect differences in the approach to enterprise development. In both types of programs a public subsidy is applied to generate a stream of benefits. In programs with a credit orientation, the subsidy starts up a potentially sustainable flow of services (credit) that creates a flow of benefits (improved enterprise performance). In programs favoring technical assistance, the subsidy finances (partially or fully) a flow of services that creates a flow of benefits. The choice of one or the other depends on the comparison of benefits with costs, including the subsidy.

<u>Organizational sustainability</u>. Microenterprise development projects need to be more than financially sustainable--they also need to be organizationally sustainable. Organizational sustainability is the capacity of an organization to manage its operations independently, make strategic decisions, and solve problems. Even organizations that are profitable must have leadership, accounting and management information systems, and qualified, trained staff to carry out necessary operations.

<u>External sustainability</u>. Finally, to achieve sustainability, microenterprise development projects must also be externally sustainable--that is, they must be able to survive in the external environment in which they operate. For the most part, external sustainability hinges on the political acceptability of the implementing organization and its program. This

can be influenced by the structure of the institution or by the consistency of its political and economic agenda with that of the government.

5. FACTORS ASSOCIATED WITH PROGRAM PERFORMANCE

The performance of microenterprise development programs can be judged against the criteria outlined in the previous section-beneficiary impact, cost-effectiveness, and institutional sustainability. This section extends the analytical framework by considering the influence of a broad range of program characteristics, or factors, on each of these performance criteria. The stocktaking concentrates on the relationship between performance and each of five categories of program characteristics: targeting, types of assistance, credit program tactics, technical assistance and training tactics, and institutional factors.

In December 1986, A.I.D. sponsored a major workshop to appraise the state of the art in enterprise development. The Workshop on Small and Microenterprise Development that took place in Williamsburg, Virginia, brought together academics, practitioners, and interested Agency personnel to review the cumulative experience of A.I.D.'s efforts in this area, seek a consensus on the role of small-scale and microenterprise development in the Agency's overall strategy, and exchange information on program factors thought to be most important to project success. While the recent Congressional earmark has created a new set of ground rules, the Williamsburg Consensus serves as a convenient starting point for organizing and examining the established wisdom on the factors related to performance (Bigelow et al. 1987). The following sections summarize the questions, the consensus that developed, the dissenting opinions, and the guidelines that A.I.D. has implemented.

5.1 Targeting

What kinds and sizes of enterprises should A.I.D. support? What sector? What industries? Which target groups are most consistent with the Agency's policy of benefiting the poor and other disadvantaged groups and, at the same time, of leading to business development?

-- Williamsburg Consensus: Firms in the 1- to 20-employee range offer the best opportunity for reaching A.I.D.'s target groups. There appears to be justification for assisting firms engaged in manufacturing, commerce, and services. Manufacturing firms generate greater employment impact; service and commerce firms generate greater income impact. Targeting the smallest firms, particularly in the trading sector, is most consistent with the goal of reaching women and other disadvantaged groups.

-- Dissenting Voices: (1) A.I.D.'s objectives are met best by assisting the very smallest enterprises (perhaps with four or fewer employees) as sources of income for the poor, without regard to their potential for graduation and business development. (2) Assistance to enterprises with growth potential--those with a longer run comparative advantage--offers the best long-run alternative for the poor through employment opportunities. These are often the relatively larger firms with as many as 10-50 employees. Studies indicate that one-person firms are often the least dynamic section of the microenterprise sector (Liedholm and Mead 1987).

-- Guidelines: A working definition of "microenterprise" is an establishment with 10 or fewer employees, with exceptions for some cooperative activities. Individual project definitions should be locally appropriate. However, at least 50 percent of A.I.D. resources should be directed toward women-owned and women-operated enterprises and should aim at firms with no access to formal sources of credit.

5.2 Assistance Strategy and Types of Services

What types of services and support are most effective in improving the performance of microenterprises? Improving the legal/policy/regulatory environment? Improving access to credit, technical assistance, or training? Improving social education or community development?

-- Williamsburg Consensus: While there is some role for technical assistance, primary emphasis is placed on financial services, particularly credit. Lack of credit, most often working capital, is the most important constraint facing microenterprise. In addition, improvements in the policy environment can contribute positively to microenterprise development.

-- Dissenting Voices: Dissent covers the logical spectrum of alternatives. (1) Credit is the "single missing ingredient"; programs should focus only on the provision of credit--a minimalist credit approach (Harper 1988). (2) Credit can be important, but it is of little use without intensive training and technical assistance. (3) Projects are useless in the absence of policy reforms that support enterprise development. With an improved policy environment, projects will be unnecessary.

-- Guidelines: Emphasis is placed on credit, but training and technical assistance also may be considered appropriate. Policy dialogue should accompany project intervention.

5.3 Credit Program Tactics

What are the characteristics of effective microenterprise credit programs?

-- Williamsburg Consensus: Financial assistance is most effective when provided in the form of working capital rather than fixed asset loans. Projects lending funds for fixed investments generally suffer from high administrative costs. Financial assistance is most effectively delivered when applications are screened quickly without detailed analyses of project feasibility or collateral requirements. In addition, lending institutions should be locally based and have decentralized decision-making; initial loans should be small and for short periods with qualification for new loans dependent on repayment. And interest rates should be high enough to cover operating costs, as well as the cost of funds.

-- Dissenting Voices: There is little dissent from the consensus, except for those who argue for larger, fixed asset lending and those who maintain the need for subsidized lending to critical target groups.

-- Guidelines: (1) In order to focus attention on the smallest firms, loan size should not exceed $300 unless larger amounts are necessary to accomplish program objectives. (2) Interest rates should be at or near market rates to avoid fund decapitalization and to permit self-sufficiency. (3) Projects should use group-or character-based lending criteria.

5.4 Training and Technical Assistance Tactics

What are the characteristics of effective technical assistance and training for microenterprises?

- -- Williamsburg Consensus: The most successful nonfinancial assistance efforts focus attention on a limited number of inputs as opposed to more integrated business development efforts. Success is more frequently associated with a focus on single tasks or industries. These efforts most often are based on prior study of the target industries; this allows the implementing organizations to tailor their interventions to the actual needs of the enterprises to be assisted.

- -- Dissenting Voices: (1) Technical assistance and training increase program costs without generating benefits and therefore should not be incorporated into microenterprise programs. (2) Microenterprises need above all to improve their general management; this can be achieved through training and technical assistance.

- -- Guidelines: Technical assistance and training programs should strive for increasing cost recovery over the life of the program.

5.5 Institutional Factors

What institutions are appropriate for reaching microenterprises in a cost-effective and sustainable manner?

- -- Williamsburg Consensus: Well-managed PVOs, particularly those that establish effective decentralized operations and decision-making, are the appropriate conduits for assistance. In some situations, other institutional forms may also be appropriate.

- -- Dissenting Voices: The important role of the public sector in successful microenterprise programs is being overlooked. In general, PVOs are appropriate for small projects but are not suited to the task of carrying out successful large-scale interventions. In order to obtain the reach and efficiencies associated with large size, it is necessary to find the rather special class of PVO able to link up effectively with the public sector. Otherwise, many programs will never be able to play a major role in poverty alleviation (Tendler 1987).

-- Guidelines: Projects should make maximum use of existing locally owned and controlled private sector institutions--commercial banks, credit unions, cooperatives, PVOs/nongovernmental organizations, and village banks.

It is clear from this brief examination of these issues that there are few areas of genuine consensus in the microenterprise field. It is also clear that much of the disagreement results directly from a failure to distinguish among very different approaches to microenterprise development. Targeting, strategy, credit and training tactics, and institutional factors all take on different meanings in the context of the different approaches. The synthesis paper addresses these factors for each of the individual approaches and inductively looks for broader generalizations that may be legitimate for microenterprise development as a whole.

6. CONCLUSION

This paper has explored three important aspects of microenterprise development: the three major developmental approaches, the measurement of program performance, and the factors generally thought to influence performance. Conceptually, each program could be laid out on a three-dimensional matrix by approach, performance, and factors. It is obvious that such a framework would prove to be excessively cumbersome for many of the programs. Nonetheless, when one sorts through the mixed bag of ideas, enterprises, programs, and projects found under the heading of microenterprise, this is the result. The fact that so many of the cells of this matrix are still open to debate may be a sign that our understanding of many aspects of microenterprise development is lagging behind our eagerness to promote it.

The argument of this report can be summarized as follows:

-- The term microenterprise refers to a diverse and heterogeneous set of economic activities, distinguished primarily by the size of the undertaking. From a developmental perspective, microenterprise can be distinguished both from the survival activities of the poorest of the poor and from small-scale enterprise on the basis of the barriers to entry between these levels of economic activity.

-- There is a tremendous diversity of activity within the microenterprise sector. These differences suggest that different types of enterprises face different short- and long-run opportunities for and constraints to growth.

-- Three approaches to microenterprise development have been identified: enterprise formation, enterprise expansion, and enterprise transformation. The enterprise formation approach seeks to integrate those in the survival-oriented economy into the microeconomy. The enterprise expansion approach seeks to improve the performance of microenterprises as microenterprises. The enterprise transformation approach seeks to graduate firms from microenterprise to small-scale enterprise. These distinctions provide a clear basis for comparing and contrasting the wide variety of programs that fall under the heading of microenterprise development.

-- The performance of microenterprise assistance programs can be measured against the criteria of beneficiary impact, cost-effectiveness, and institutional sustainability. While beneficiary impact and cost-effectiveness are valid across all types of programs, institutional self-sustainability is not a necessary condition for successful programs and projects.

-- A variety of factors are thought to influence program performance. These include targeting, credit tactics, training and technical assistance tactics, and institutional factors. Many of the differences of opinion concerning these issues stem from differences in the developmental approach of the programs. The synthesis report identifies which of these (or other) factors have proven most influential in explaining the relative success of the programs in the sample.

APPENDIX

PROJECT PROFILES

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WOMEN'S ENTREPRENEURSHIP DEVELOPMENT PROGRAM

COUNTRY: Bangladesh

IMPLEMENTING INSTITUTION: Government parastatal: Bangladesh Small and Cottage Industries Corporation (BSCIC), and Government bank: Bangladesh Agriculture Bank

APPROACH: Enterprise formation

SERVICES: Primarily credit; also training and technical assistance

CLIENT PROFILE: Targets individual women entrepreneurs or family businesses with an annual income range of $108 to $336. Seventy-five percent of loans go to existing enterprises, and the remaining 25 percent finance new activities. Eighty-seven percent of all loans go to the manufacturing sector, and the remaining 13 percent fund agricultural activities.

PROGRAM DESCRIPTION: The Women's Entrepreneurship Development Program (WEDP) originated in 1983 as a pilot activity of the A.I.D.-funded Rural Industries Project. It was designed to improve the supply of credit to rural women entrepreneurs by providing small loans of both working and fixed capital. It is being implemented by BSCIC, a parastatal agency that provides financial, technical, and marketing assistance to small-scale enterprises and microenterprises, and by the Bangladesh Agriculture Bank, a state-owned agricultural bank that provided two thirds of the program's credit funds. A.I.D.'s involvement began in 1982 and is projected to continue through 1989. Total A.I.D. funding approximates $877,300.

The principal services provided by the program to its clients are credit, pre- and post-investment marketing counseling to borrowers, and loan-application-related topics. There is no charge for the technical assistance. Rather, clients are paid to undergo the training. Only 10 percent of the clients have received program training. The average loan size is $60. Loans are extended on the basis of the feasibility of the activity to be funded and character references for the loan applicants.

SUSTAINABILITY: The program is not designed to be self-sustaining and is dependent on external funding to continue its operations.

BENEFICIARY IMPACT: The program is reported to have a positive, but limited, impact on its clients. In a retrospective survey of a random sample of clients, 81 percent of those surveyed reported income increases, though all had negative profits. Underemployment of family labor was decreased, and increased nutrition levels were reported by 67 percent of those surveyed.

REFERENCES: Berger 1985; Hashemi 1987; Webster et al. 1988.

FINANCIAL INSTITUTIONS DEVELOPMENT PROJECT: VILLAGE FINANCIAL INSTITUTIONS COMPONENT AND GENERAL VILLAGE CREDIT PROGRAM OF THE BANK RAKYAT INDONESIA (KUPEDES) COMPONENT

COUNTRY: Indonesia

IMPLEMENTING INSTITUTION: Village Financial Institutions (VFI) component--existing public sector village and subdistrict financial institutions in four provinces, including the Badan Kredit Kecamatan (BKK) program in Central Java, with technical assistance from U.S. consulting firm: Development Alternatives, Inc.

KUPEDES COMPONENT: State bank--Bank Rakyat Indonesia, with technical assistance from the Harvard Institute for International Development

APPROACH: Enterprise expansion

SERVICES: Credit and savings

CLIENT PROFILE: VFI/BKK: Nontargeted loans are extended to individuals, some of whom operate microenterprises; 60 percent of all beneficiaries are women, and 47 percent are landless. Over half the beneficiaries (53 percent) are traders, 22 percent are agriculturalists, 12 percent are involved in service enterprises, and 11 percent are involved in manufacturing. Data on the use of the loans are not available.

Client information is not available for the KUPEDES program, although the profile is expected to be similar.

PROGRAM DESCRIPTION: The BKK program is a Central Java credit program whose objective is to provide small, short-term loans primarily to rural families for off-farm productive purposes. Between 1972 and 1982 the program provided 2.7 million loans, totalling over $55 million. The average loan size was $70. The BKK operates under the auspices of the provincial government and receives supervisory assistance from the Central Java Provincial Development Bank (BPD). The program comprises 497 BKK units, which, with 2,860 village posts, provide a coverage of 34 percent of all villages in Central Java. Each unit is an independent subdistrict credit institution that is locally administered and financially autonomous. The program relies on character references from local officials for loan eligibility and increases loan sizes on the basis of repayment performance. The BKK is one of the few publicly funded and administered credit programs that are profitable.

The Financial Institutions Development (FID) project was initiated in 1986 to replicate and adapt to other provinces the systems and procedures that have been successful in the BKK program. A.I.D. has provided $13.7 million to FID. Total project funding, including $7.2 million from the Indonesian Government, is $21 million. The FID Phase I project consists of providing training, technical assistance, and supplementary loan capital and commodity inputs to improve the efficiency, effectiveness, and sustainability of existing VFIs in four provinces (Central Java, East Java, West Java, and West Sumatra). The project's principal strategy for achieving its objective is to improve each BPD's capacity to provide technical supervision and assistance to its respective VFIs and to upgrade the operations of the VFIs. The project's objectives are to encourage enterprise development, increase productivity, and generate employment in rural areas by strengthening VFIs so that they have wide coverage in a financially viable manner. Its purpose is to support the development of existing rural credit institutions that provide financial intermediation for village residents. The project is expected to develop four financially self-sustaining, locally oriented financial systems that mobilize savings and extend credit.

<u>KUPEDES</u>: With the discontinuation of the Government-sponsored agricultural credit scheme in 1986, the Bank Rakyat Indonesia elected to replicate a BKK-type system in its network of 2,500 district-level branches. As of December 1988, KUPEDES had over 1.3 million loans outstanding. Loans average just over $300 and require collateral, ordinarily land.

<u>SUSTAINABILITY</u>: Both the BKK and KUPEDES programs are considered self-sustaining. The other VFIs under FID are likely to become self-sustaining, but have not yet achieved the same standard of performance as BKK. With the downturn in the Indonesian economy, defaults in BKK have increased to 19 percent, which is cause for some concern. Apart from the FID inputs, the BKK program does not charge as costs supervisory services provided by BPDs and maintains some civil servants on local staffs. Nonetheless, even accounting for these costs, the program is profitable.

<u>BENEFICIARY IMPACT</u>: The impact on beneficiaries is judged to be positive for the BKK program. Qualitative evidence shows that sales and profits have increased, and the backward linkages and consumer benefits are estimated to be significant. The impact of

the FID project on its beneficiaries was not addressed by the study.

REFERENCES: Goldmark and Lucock 1988; Goldmark and Rosengard 1983.

CENTRAL JAVA ENTERPRISE DEVELOPMENT PROJECT-- RATTAN EXPORT DEVELOPMENT PROGRAM

COUNTRY: Indonesia

IMPLEMENTING INSTITUTION: Semiautonomous Government project implementation unit under oversight of the Central Java Planning Agency (BAPPEDA); implementation unit managed by U.S. consulting firm: Development Alternatives, Inc., and Indonesian PVO: Yayasan Dian Desa.

APPROACH: Enterprise transformation

SERVICES: Training, technical assistance, policy dialogue

CLIENT PROFILE: Village enterprises, the majority with 10 or fewer employees.

PROGRAM DESCRIPTION: The Central Java Enterprise Development Project (CJEDP) Rattan subactivity was one of several activities under the CJEDP export development subproject (which was itself one of three subprojects). The Rattan activity exemplifies an industry-specific or subsector approach, which targets a particular industry for technical intervention. CJEDP was started in 1985 with A.I.D. and Government of Indonesia funding to provide support for small enterprises in Central Java through intermediary institutions. A.I.D.'s contribution approximates $1.4 million. The primary objective of CJEDP's Rattan activity was to create in Central Java a self-sustaining capacity to produce and export rattan products.

The CJEDP Rattan activity was designed on the basis of a close examination of the rattan industry and its associated supplier linkages and retail outlet channels. The project provides technical assistance in marketing and training in production skills. It identifies export market outlets and means to achieve them, as well as ways for its clients to access raw materials. CJEDP provided direct assistance and support to a exporting company and assisted the exporter in developing sources of product supply from village manufacturers. In response to orders, CJEDP used expert advisors to provide product-specific training to village enterprises.

SUSTAINABILITY: The assisted enterprises are self-sustaining; the program's rattan activities were designed to disappear when the private sector was able to assume all exporting and procurement functions.

BENEFICIARY IMPACT: Annual data collected from assisted and nonassisted firms within the same target village show that sales, employment, and profits were positively influenced by project assistance. In spite of the highly experimental nature of the project, a recent study found a positive and significant internal rate of return from this project activity.

REFERENCES: Boomgard 1988; Boomgard and Davies 1989; Davies 1988.

THE PUSKOWANJATI WOMEN'S COOPERATIVE

COUNTRY: Indonesia

IMPLEMENTING INSTITUTION: Local cooperative: PWC

APPROACH: Enterprise expansion--cooperative

SERVICES: Credit, savings facility, and training

CLIENT PROFILE: Member cooperatives range in size from 90 to 3,600 women

PROGRAM DESCRIPTION: The Puskowanjati Women's Cooperative (PWC) is an umbrella organization of women's cooperatives located in East Java. It includes 29 member groups totalling 16,000 women and is the largest independent women's cooperative in Indonesia. Its purposes are to encourage women to join member cooperatives, increase the income and employment of members, and increase the participation of low-income women in the activities and benefits of cooperatives.

A.I.D. has provided grant funding since 1984. Total assistance to date is $505,000. It has been used to establish or expand revolving loan funds for member cooperatives and to provide training for the staff of PWC and member cooperatives.

Member cooperatives offer credit and a savings facility to individual members as well as training. Loans to members reportedly average $150. The nature and extent of training differs among the member cooperatives. It ranges from informal voluntary training to formal courses in basic business and accounting, to charging user fees.

PWC receives income from membership fees, interest payments, and administrative fees charged for loan processing.

SUSTAINABILITY: PWC's financial operations were favorably reviewed by the microenterprise stocktaking team. Several of the cooperatives visited maintained a sufficient spread between lending and savings rates to generate a significant margin. The program was reportedly self-sustaining.

BENEFICIARY IMPACT: Impressionistic evidence of the productive impact of small loans on the women beneficiaries was reported. Also, the ratio of lending for business to lending for personal purposes is increasing steadily from 25:75 in 1977 to an estimated 65:35 at present.

REFERENCES: Biddle et al. 1988.

MAHA BHOGA MARGA MICROENTERPRISE DEVELOPMENT FOUNDATION

COUNTRY: Indonesia

IMPLEMENTING INSTITUTION: Local PVO: Maha Bhoga Marga (MBM), with technical assistance from U.S. PVO: Opportunity International

APPROACH: Enterprise expansion

SERVICES: Primarily credit, some technical assistance and training

CLIENT PROFILE: MBM targets existing microenterprises. Fifty-nine percent of the number of loans, or 30 percent of the amount of loans, are disbursed to women. Of the portfolio, 47.8 percent is for trade activities. Manufacturing and "other" activities account for 46.5 percent of the value of the portfolio. Borrowers are reported not to be among the "poorest of the poor."

PROGRAM DESCRIPTION: MBM, which was founded in 1980 as the development and service division of the Bali Protestant Church, operates exclusively on the island of Bali. Its lending program, one of several community development programs, was initiated in 1981 with the assistance of Opportunity International. MBM assists microenterprises to increase their incomes from nonfarm activities, primarily through a loan fund. MBM loans range in size from $3 to $3,050, with an average size of $174. Loans are extended on the basis of collateral, credit history, and feasibility studies. A sharp increase in average loan size over the years demonstrates that the program is characterized by repeated larger loans for an unchanging borrower population. From 1981 to 1987 a total of 4,075 loans were disbursed. The interest rates vary by locality and range from 12 to 129 percent per annum.

A.I.D. provided a grant of $179,641 in July 1987 for MBM's microenterprise program. MBM enjoys high credibility throughout Bali, partly as a result of its church network, and partly because of the linkages to the business community that its board of directors provides.

SUSTAINABILITY: With the exception of a small amount of capital mobilized through savings, MBM's revolving loan fund is financed entirely through grants. Operating costs are financed from interest revenue and fees and are reported to be 16.7 percent of total disbursements. However, operating costs are understated, and the true costs are not reflected in lower-than-market-rate salaries, indirect subsidies from external donors, and voluntary services provided by church officials. Some cross-subsidization of costs is estimated to occur with other programs as well, since expenditures are not rigidly charged against the program. Defaults remain at a very low 2.2 percent of the outstanding portfolio.

BENEFICIARY IMPACT: The program contributed to increasing use of family labor. Anecdotal evidence of substantial income increases, particularly for manufacturing enterprises, was reported.

REFERENCES: Biddle et al. 1988.

COPTIC EVANGELICAL ORGANIZATION FOR SOCIAL SERVICES: INCOME AND EMPLOYMENT GENERATION PROJECT

COUNTRY: Egypt

IMPLEMENTING INSTITUTION: Local PVO: Coptic Evangelical Organization for Social Services (CEOSS)

APPROACH: Enterprise formation

SERVICES: Credit, technical assistance, training

CLIENT PROFILE: Target clients are individuals from low-income communities. Ninety-nine percent of the assisted enterprises have fewer than 5 employees, and many are single-person firms. Thirty-eight percent of beneficiaries are women.

PROGRAM DESCRIPTION: CEOSS, a community development organization established in 1953, initiated its microenterprise development project as a pilot project in Upper Egypt, with support from A.I.D. from 1983 to 1986. (The program served as a demonstration project under the A.I.D/Science and Technology Bureau's PISCES II Project.) A.I.D. funding for this effort totalled $313,534. The project's purpose is to provide loan capital, related training, and administrative support to entrepreneurs and potential entrepreneurs in the over 40 villages already served by CEOSS through its community development efforts. In addition to funding for individuals and groups for enterprise development, CEOSS also has received non-A.I.D. funding for agricultural lending.

CEOSS lends for both fixed asset investments and working capital. Approximately 20 percent of the loans are for fixed assets. Loan sizes range from under $43 to $1,293 or more, with average loan terms of 2-3 years. Eighty-six percent of the loans are for under $120. The average loan size is $132 but is slowly increasing. Loans, which are extended on the basis of character references and feasibility analyses of the proposed investment, must be backed by a guarantor at the time of application and by a cosigner when approved. From 1983 to 1988 a total of 786 loans were granted. CEOSS' training component, which is independent of the credit program, trains youths in various practical trades and basic skills. Upon completing the training, these youths are potential candidates for loans. Follow-up technical assistance is provided to villages where CEOSS has previously worked.

SUSTAINABILITY: The project's revenues do not cover its operating costs. In addition, inflation rates, estimated at between 22 and 25 percent, are decapitalizing the loan fund, and lax attitudes toward loan arrearage and default are negatively affecting the loan fund. However, CEOSS' overall strong financial and social standing and its commitment to continue this project will lead to the project's continuation, even if it continues to require subsidization.

BENEFICIARY IMPACT: Recent impact data are not available, but interviews with several assisted firms pointed to positive results.

REFERENCES: Hellinger et al. 1985; Grant et al. 1988; 1985.

THE HELWAN SMALL ENTERPRISE LOAN PROGRAM

COUNTRY: Egypt

IMPLEMENTING INSTITUTION: Egyptian Government organizations: Ministry of Housing; a parastatal bank, Credit Foncier Egyptian; and the Cooperative Housing Foundation

APPROACH: Enterprise expansion

SERVICES: Credit for working capital and fixed assets

CLIENT PROFILE: Helwan Small Enterprise Loan Program (SELP) targets existing enterprises in seven project target areas with less than $18,072 in fixed assets, less than $3,614 in monthly revenues, and fewer than 10 employees. Seventy percent of the loan volume is for commercial purposes, 14 percent is for services, and 16 percent is for manufacturing activities. Women beneficiaries account for 28 percent of the number and volume of loans.

PROGRAM DESCRIPTION: SELP, begun in 1982, is a separate initiative within a much larger A.I.D.-supported squatter community/ housing project in Helwan. The Helwan project itself was designed in 1978. SELP's objective is to increase incomes and employment for established microenterprises in seven squatter communities through an experimental credit program. Its purpose is to demonstrate the economic and social feasibility of providing assistance to microenterprises along with improved housing programs in conjunction with the public sector and the commercial banking community. SELP has received $181,000 from A.I.D.

SELP provides credit to its beneficiaries. Loan use is restricted to fixed asset investment, working capital, and shop improvements. Sixty percent of the loan volume is for working capital purposes, 31 percent is for shop improvement, and 9 percent is for capital investments. The average loan size is $2,194. Loan sizes range from $240 to $6,024, although 90 percent of loans extended were below $3,600.

SUSTAINABILITY: A lack of data on SELP's costs and cost coverage limits a definite assessment of its financial situation, although it is unlikely that revenues cover operating costs. The loan fund has lost over half its real value in the last 4 years because of depreciation of the Egyptian currency and high inflation rates. In addition, demand for credit in the seven target areas seems to have tapered off. The project's continuation depends on the parastatal bank's commitment to continue subsidizing its costs.

BENEFICIARY IMPACT: No substantive data on the impact of this project was available. Anecdotal and impressionistic evidence points to positive impacts in the form of increased incomes.

REFERENCES: Grant et al. 1988.

RURAL ENTERPRISE DEVELOPMENT PROJECT

COUNTRY: Burkina Faso

IMPLEMENTING INSTITUTION: U.S. PVO: Partnership for Productivity (PfP)

APPROACH: Enterprise formation

SERVICES: Credit and technical assistance

CLIENT PROFILE: Targets enterprises with an average of two or fewer employees. Forty-two percent of loans are to one-person firms. Fifty percent of loans are for new enterprises, and 50 percent go to existing firms. Ten percent of project beneficiaries are women. Retail activities receive 46 percent of project resources; manufacturing activities receive 33 percent; agriculture-related activities receive 12 percent; and service firms receive 8 percent.

PROGRAM DESCRIPTION: PfP received a $617,000 operational program grant from A.I.D. to promote enterprise development in the Eastern Office of Regional Development of Burkina Faso from 1977 to 1981. In the first phase of the project, the objective was to determine through field experimentation the best program design to foster rural enterprise development by providing technical assistance. Based on the project's performance in Phase I, when 313 loans were disbursed, PfP received a second grant of $2.3 million to continue and expand its activities, shifting from technical assistance to credit. The second phase of the project (1981 to 1986) showed a shift from rural enterprise promotion to the provision of credit to small-scale enterprises, focusing on economic activities.

The project was implemented in a region lacking the requisite infrastructure and consumer purchasing power. It encompassed two different subprojects, one in Fada N'Gourma and another in Diapaga. The Diapaga subproject was reported to be the better performing, in part because of its superior management. In addition to funds lent through PfP's loan fund, an experimental fund was established to finance innovative, high-risk ventures that could demonstrate their profitability to other interested entrepreneurs.

Four hundred and sixteen loans were disbursed, with an average loan size of $670. Seventy-five percent of all loans were under $500. Loans were extended for both working capital and fixed capital purposes, and were disbursed on the basis of extensive feasibility analyses.

SUSTAINABILITY: It is doubtful that the project will be sustainable without major structural changes. The cost of lending has been twice the value of the loans. However, the project is still in the process of evolving. Recent documentation indicates that the project may adopt a more purely credit-centered approach, modeled in part on that of the Grameen Bank of Bangladesh.

BENEFICIARY IMPACT: Random samples of beneficiaries indicated positive impacts in terms of increased incomes. A major road construction effort increased the accessibility of additional markets, so it is difficult to attribute reported benefits to the project alone.

REFERENCES: Association Pour la Productivité Burkina Faso 1988; Goldmark, Mooney, and Rosengard 1982; Hull 1979; Rippey 1988.

CREDIT UNION DEVELOPMENT PROJECT

COUNTRY: Cameroon

IMPLEMENTING INSTITUTION: Local credit union: Cameroon Cooperative Credit Union League (CamCCUL)

APPROACH: Enterprise expansion

SERVICES: Credit

CLIENT PROFILE: The project beneficiaries are rural and urban poor, lower middle income, and middle-income Cameroonians. Loans are made to owners/managers of small grocery shops, bars, tailor shops, and similar enterprises to purchase inventory or cover operating costs. Microenterprise loans, mainly for trading activities, make up 8 percent of loans and 15 percent of the loan volume. Eighty-one percent of loans are for construction, medical, education, and consumption purposes, and the remaining 4 percent are for agricultural purposes.

PROGRAM DESCRIPTION: CamCCUL was founded in 1969 and is registered as a cooperative under the Ministry of Agriculture. A.I.D. involvement began in the mid-1970s. It currently consists of providing technical assistance, commodity support, and an operations grant through the World Council of Credit Unions for an institution-building project to strengthen Cameroon's national and regional credit union structure through CamCCUL. A.I.D. support under two phases of the project has totalled $4.8 million.

The objectives of the project are to make Cameroon's national and regional credit union structures financially and technically self-sufficient and to create and expand a network of credit unions to provide savings and credit to an expanded membership. CamCCUL's mission is to provide security to savers and to make loans for productive purposes to members. It has steadily increased savings, membership, loans, and numbers of affiliated members since its origin.

By June 1988, CamCCUL had a membership of 68,460, shares and savings of $31.17 million, and loans outstanding of $21.52 million. Membership in the credit unions and discussion groups had grown from 200 in 1969 to 5,000 in 1988. In 1987, CamCCUL made 28,981 loans, 2,379 of which were reported to be for use in microenterprises. Members may borrow up to the amount of their savings plus the savings of loan cosigners. Average loan size for enterprise loans was $2,264, compared with $701 for other types of lending. Interest rates are 1 percent per month on the declining balance.

SUSTAINABILITY: CamCCUL has reported earnings in excess of expenses since 1985. Eighty-nine percent of its income comes from earnings on its central liquidity fund. The remaining 11 percent comes from other outstanding loans, dues, and other sources. Default rates of less than 20 percent were reported for 64 percent of the credit unions.

BENEFICIARY IMPACT: As a result of construction, education, and medical loans, CamCCUL's operations reportedly have a great impact on households in terms of improved housing, health, and education. The impact on trading or on enterprises is less clear since the majority of loans are used to meet the social needs of the borrowers, rather than for commercial or productive purposes.

REFERENCES: De Santis and Lang 1988.

THE PRIVATE ENTERPRISE PROJECT

COUNTRY: Chad

IMPLEMENTING INSTITUTION: U.S. PVO: Volunteers in Technical Assistance (VITA)

APPROACH: Enterprise transformation

SERVICES: Credit, technical assistance

CLIENT PROFILE: Targets existing enterprises with 3-20 employees. Six percent of the beneficiaries are women. Forty-nine percent of all loans are made to enterprises in the agriculture sector; 35 percent are for manufacturing activities; and 16 percent are for service enterprises.

PROGRAM DESCRIPTION: The Private Enterprise Project was initiated in 1984 to provide credit and management and technical assistance to small and medium enterprises in Chad. The project received A.I.D. funding through a cooperative agreement with VITA, and additional funds from the A.I.D./Africa Private Enterprise Development Fund, bringing total project funding to $2,051 million.

The project was developed under extremely difficult conditions in Chad. Chad had experienced 20 years of civil strife that had destroyed its infrastructure and transport facilities, and Libyan troops occupied the northern 40 percent of the country. The decline in the economy due to prolonged war was exacerbated by a severe and protracted drought that caused agricultural output to decline. All of these factors, combined with a world drop in the price of cotton, Chad's major export, resulted in Chad's being classified in 1986 as the world's poorest country by World Bank per capita income measures. The Private Enterprise Project was to contribute to the reconstruction and stabilization of the Chadian economy by assisting entrepreneurs to rehabilitate damaged enterprises, establish new firms, and expand existing ones.

The project had two phases. By the end of the first phase, it had exceeded all expected targets. In its initial two years in operation, it had extended 96 loans, 24 percent of which were for manufacturing and repair activities, 26 percent for agricultural processing and services, and 50 percent to agriculture. Average loan size was roughly $4,800. Screening was rigorous, based on project feasibility and client character. Interest rates were 12 percent per annum, slightly less than commercial terms.

However, the project did not continue to grow as expected in Phase II. Reduced demand for credit and low repayment rates, due partially to poor economic conditions, raise doubts about the viability of the project or any enterprise development project in Chad. It is conceivable that the underutilized loan fund resources will be used for a more feasible export marketing project.

SUSTAINABILITY: Self-sustainability of the project seems improbable. The cost per dollar loaned has risen from $1.60 in Phase I to $3.90 in Phase II, and demand for the loan fund has been very low. The Government of Chad is not supportive of raising interest rates. Alternative uses of the remaining project funds are being explored.

BENEFICIARY IMPACT: The impact on beneficiaries of the first phase of the project was reported as positive: 374 jobs were created, and 97 enterprises were strengthened.

REFERENCES: Agency for International Development 1988b, Mock 1986.

NATIONAL COUNCIL OF CHURCHES OF KENYA--SMALL BUSINESS SCHEME

COUNTRY: Kenya

IMPLEMENTING INSTITUTION: National Council of Churches of Kenya (NCCK)

APPROACH: Enterprise formation

SERVICES: Credit. Technical assistance was provided in the form of management training to encourage enterprise formation.

CLIENT PROFILE: Targets were small, informal-sector, urban and periurban, group and individual enterprises. Most beneficiaries had no regular employment or salary and perhaps $70 in cash on hand. The clients' incomes ranged from $16 to $80, with an average of $36 per month. The program reached the poorest and least skilled segment of the urban population. These clients were far more concerned with their own survival and that of their dependents than with enterprise growth in itself.

Female clients of loan programs, who make up over 70 percent of the borrowers in secondary cities, tend to run smaller operations than do their male counterparts; their assets average only $90 compared with $117 for men. These operations are tiny retail concerns carried on at a subsistence level and, somewhat surprisingly, it has been found that most of their operators rely entirely on them for their survival. Of the businesses assisted by NCCK-Small Business Scheme (SBS), 50 percent were established and 50 percent were new. Twenty-five percent of the loans went to tailoring businesses, 20 percent to fruit and vegetable retailers, 19 percent to provision stores and groceries, and the rest to different kinds of businesses.

PROGRAM DESCRIPTION: Wanting to improve incomes and employment for the poor urban and periurban population, NCCK established its Small Business Scheme in 1975. The program was designed to provide management and financial assistance to small-scale enterprises in the urban and periurban informal sectors of Nairobi. The management assistance component of the SBS was initiated after an assessment of the needs of the intended beneficiaries found that lack of money and adequate facilities were their major problems.

NCCK employed a full-time small-business administrator, who, in collaboration with officers from the Government's Cooperative Development Department, provided technical advice to the intended beneficiaries. A small revolving loan fund totaling about $10,000 was also set up to make small loans to individual and group enterprises. After a year's grant review and approval process, in late 1980 A.I.D. helped finance a 3-year expansion of the SBS by contributing $275,000 to hire four new technical extension agents and expand the revolving fund to $110,000 by 1982.

SUSTAINABILITY: The program was not designed to be self-sustaining.

BENEFICIARY IMPACT: The program reached mostly individuals: only 16 group projects had been approved for financing by mid-1984. The program's first clients--particularly vegetable and dry-goods retailers--were able to increase their net incomes some 10-20 percent after investing their loan funds in the purchase of stock and generating increased sales. After an initial period, however, incomes generally leveled off, as clients tended to use much of their gains for family consumption rather than for reinvestment. Close to 80 percent of individual borrowers reported a profit increase of 10-50 percent between 1981 and 1983. It is unclear whether the changes were due to the project. Also, while those with larger loans did not necessarily do better, the size of the loan seemed to put a cap on the amount of profits that could be generated. Finally, steady work and an improved income stream had a positive impact on the welfare of families.

REFERENCES: Hellinger et al. 1985.

NIMBA COUNTY RURAL TECHNOLOGY PROJECT

COUNTRY: Liberia

IMPLEMENTING INSTITUTION: Local PVO: Partnership for Productivity (PfP)/Liberia, with technical assistance from a U.S. PVO: PfP

APPROACH: Enterprise expansion

SERVICES: Credit and savings, training, and technical assistance

CLIENT PROFILE: Targets new enterprises. Seventy-three percent of loans were to the service sector, with the remaining 27 percent to the manufacturing sector.

PROGRAM DESCRIPTION: The project was initiated by PfP in 1974, in Nimba County, one of Liberia's two most populous counties. A.I.D. supported the effort through a 7-year operational program grant to PfP for $4,263,500. In the early 1960s, the Liberian American Swedish Minerals Corporation had completed a massive building program to develop one of the world's largest iron ore deposits. The thousands of jobs and millions of dollars of income that the mining project had created were lost; and PfP initiated this project to broaden the economic base of Nimba County. PfP's strategy for economic development was to establish a rural financial infrastructure consisting of lending, savings, and enterprise promotion.

In less than 2 years of operation, the project had extended 550 loans, with an average loan size of over $800. Thirty-eight percent of the project's activities went to a savings program; credit accounted for 29.5 percent, technical assistance for 17 percent, and general administration for 12.5 percent. Credit was extended for working capital and fixed capital investments on the basis of feasibility analyses of the proposed investments. Collateral, character references, or loan guarantees served as the bases for loan approval.

SUSTAINABILITY: The project requires external subvention, and is not likely to become self-sustaining.

BENEFICIARY IMPACT: Self-reported project documents cited positive beneficiary impacts in terms of increased sales and employment.

REFERENCES: Management Systems International 1987.

RURAL ENTERPRISE AND AGRIBUSINESS DEVELOPMENT INSTITUTIONS PROJECT

COUNTRY: Malawi

IMPLEMENTING INSTITUTION: Local organization: Malawian Union of Savings and Credit Cooperatives (MUSCCO), with technical assistance from the World Council of Credit Unions (WOCCU).

Local organization: Development of Malawian Traders Trust (DEMATT), with technical assistance from U.S. PVOs: originally Partnership for Productivity (PfP), now Africare.

SERVICES: MUSCCO: Savings and credit

DEMATT: Training and technical assistance

CLIENT PROFILE: MUSCCO: Credit union members, primarily in the agriculture sector.

DEMATT: Thirty-seven percent of the beneficiaries are traders, 54 percent are producers, and 9 percent are in the service sector. The average number of employees per assisted enterprise is 2 for traders, 3.5 for producers, and 4 for services. Five percent of the beneficiaries are women.

PROGRAM DESCRIPTION: A.I.D. has supported MUSCCO and DEMATT since 1980, through contractual arrangements with WOCCU and PfP. It has continued its support of these institutions under the auspices of the Rural Enterprise and Agribusiness Development Institutions (READI) project, which is an umbrella project providing technical assistance and credit to its affiliated institutions. The READI project's objective is to enhance the institutional capability of government and private institutions to provide the necessary services for promoting private enterprises in Malawi. MUSCCO and DEMATT are the two participating institutions that extend services to microenterprises.

MUSCCO is the apex body of Malawi's savings and credit cooperative societies. It originated in 1980, with the objective of developing a viable credit union movement throughout Malawi by improving the management skills and creditworthiness of credit societies. MUSCCO aims eventually to graduate groups of homogeneous savings and lending societies to financial self-sufficiency. It provides supplemental funds to its member unions for on-lending. A.I.D. has supported MUSCCO's activities by providing over $1.5 million in technical assistance through WOCCU since 1980.

MUSCCO provides a savings and credit mechanism, where none previously existed, to the rural poor in Malawi. It has mobilized savings of $520,000 and has a current loan portfolio of almost $575,000. Under its loan program, MUSCCO lends for an average loan term of 5 months. A special small-enterprise window has recently been established. Since April 1986, MUSCCO has extended 25 loans with an average value of $1,462.

DEMATT was created in 1979 to provide business and technical advisory services to microenterprises. It first received A.I.D. support in 1980 through a grant to PfP and in 1987 was incorporated into the READI project. DEMATT uses a group training approach. Training courses are designed on the basis of an individual analysis of entrepreneurs' needs and constraints. Follow-up to group training is one-on-one. Fees are not charged for the courses or the follow-up training. Between 1986 and 1987, DEMATT provided technical advisory services to 545 enterprises.

SUSTAINABILITY: MUSCCO depends on external subsidies for its operations. Data to determine the financial self-sufficiency of MUSCCO's member credit unions were not available.

DEMATT's primary objective has not been to achieve financial self-sufficiency. It intends to remain completely dependent on Government funds to support its activities.

BENEFICIARY IMPACT: Data on the impact of MUSCCO and DEMATT's programs on their beneficiaries were lacking.

REFERENCES: Bess et al. 1988; Webster et al. 1988.

COMMUNITY AND ENTERPRISE DEVELOPMENT PROJECT

COUNTRY: Senegal

IMPLEMENTING INSTITUTION: U.S. PVO: New Transcentury Foundation, in collaboration with a U.S. consulting firm; Management Systems International (MSI)

APPROACH: Enterprise transformation

SERVICES: Small-scale enterprise component: Credit and technical assistance

PVO COMPONENT: Credit, technical assistance, and training

CLIENT PROFILE: Small-scale enterprise component: Targets existing enterprises in the Sine Saloum region of Senegal. Women constitute 10 percent of the beneficiaries.

PVO COMPONENT: Lends to village organizations, which are composed of 7-73 members. Credit is used primarily to support animal husbandry and vegetable marketing activities.

PROGRAM DESCRIPTION: The Community and Enterprise Development Project (CEDP) began in September 1985 with assistance from A.I.D., which is projected to continue under the current terms until 1990. Project implementation did not begin until August 1986, when the first loans were disbursed. The CEDP project has two purposes: to strengthen the capacity of VOs through PVOs to carry out development projects that benefit the community where they operate; and to assist small-scale enterprises and microenterprises to carry out increased and self-sustaining business activities.

The project has two components by which to achieve its dual purposes: the SSE component and the PVO component. The SSE component consists of a revolving credit fund of $450,000. It serves as a rural bank, lending to small enterprises to increase incomes and employment and secure resulting development benefits. The project is expected to assist 670 enterprises. The PVO component has funding of $2.5 million for grants to selected PVOs to develop the requisite managerial and technical skills to reach and assist the village organizations. The PVOs, in turn, train the village organizations in credit management so they will be able to access bank funding directly. The PVO component has a revolving credit fund of $750,000 to channel to village organizations through the PVOs for lending for financially viable group activities. CEDP is expected to implement approximately 210 village organization projects.

Both project components include elements of training and credit activities. Training for PVOs is designed to increase their organizational, management, and financial skills and to improve their ability to disburse credit and collect repayments. The SSE component's principal activity is to provide credit, with a minimal amount of technical assistance, which is directly related to the loan-administering function. Loans are extended on the basis of feasibility analyses, guarantees, and character references.

Between August 1986 and June 1987, the SSE component had disbursed 95 loans, averaging $4,211. The PVO component had approved grants to four PVOs.

SUSTAINABILITY: The small-scale enterprise is reported to have a good chance of becoming self-sustaining by the end of its funded life. The PVO component has a much higher cost of delivering its services and may not become self-sustainable.

BENEFICIARY IMPACT: Very little information on the project's beneficiary impact was reported. By the time of the evaluation, which occurred less than a full year from actual credit disbursements, the project had not been in place long enough to assess impact effects.

REFERENCES: De Santis et al. 1989; Grant et al. 1989.

NATIONAL DEVELOPMENT FOUNDATION OF BELIZE

COUNTRY: Belize

IMPLEMENTING INSTITUTION: Local PVO: National Development Foundation of Belize (NDF-B), with technical assistance from a U.S. PVO: Pan American Development Foundation (PADF)
APPROACH: Enterprise transformation

SERVICES: Primarily credit, linked to training and technical assistance

CLIENT PROFILE: NDF-B targets existing microenterprises with less than 10 employees and with fixed assets worth less than $12,500. Thirty-seven percent of loans are to the manufacturing sector; 18 percent are to the service sector; 11 percent are to the commerce sector; and 34 percent are for other unspecified activities. The percentage of women beneficiaries is low.

PROGRAM DESCRIPTION: NDF-B was created in 1983, with support from A.I.D. in the form of a 3-year $336,000 operational program grant through PADF, and support from the Government of Belize and the Belizean private sector. The purpose of the grant was to create a viable, self-sustaining, indigenous credit institution and to support a program of providing credit and technical assistance to small-scale enterprise and microenterprises.

NDF-B's assistance consists of credit and technical assistance, closely linked. In the first 15 months of its operations, the project had disbursed 111 loans, with an average loan size of $1,618. Clients are selected after a feasibility assessment of the proposed investment, and collateral is required in some instances. Loans are for both working and fixed capital purposes. NDF-B was expected to assist 400 enterprises during the 3 years of its operational program grant.

SUSTAINABILITY: NDF-B is unlikely to become financially self-sustaining from earnings. Operating costs were not being covered, and projected additional funds had not been raised at the time of the evaluation (1985). PADF was planning to strengthen the NDF-B's fundraising capabilities.

BENEFICIARY IMPACT: A survey of a random sample of a small number of project clients reported income increases and employment creation and strengthening. It was estimated that 1.7 jobs were protected or created per loan and that employment increased in 48 percent of the client firms. Also, 63 percent of the clients reported income increases.

REFERENCES: Prentice 1985.

BANCO MUNDIAL DE LA MUJER/WOMEN'S WORLD BANKING

COUNTRY: Colombia

IMPLEMENTING INSTITUTION: Local PVO: Banco Mundial de la Mujer (BMM), which is the Colombian affiliate of a U.S.-based PVO: Women's World Banking (WWB)

APPROACH: Enterprise expansion

SERVICES: Credit, training, and technical assistance

CLIENT PROFILE: BMM targets existing single-employee enterprises and solidarity groups. Seventy-five percent of beneficiaries are women.

PROGRAM DESCRIPTION: BMM is a Colombian foundation, organized in late 1982 as the Colombian affiliate of WWB. It assists individual enterprises and solidarity groups of market women through credit, training, and technical assistance. It is assisted by WWB through a loan guarantee program.

BMM made 406 loans and held a portfolio of $93,000 in its first 2 1/2 years in operation. Loan sizes begin at $18 to $63, but rise to $90 with 30-day loan terms for solidarity groups. The average loan size for solidarity groups is $72. Solidarity group members must undergo monthly training at the BMM office. All members are required to leave the program after 2 years. A compulsory savings feature is part of the program. The project has three client components: solidarity groups (83 percent); guaranteed loan recipients (8.5 percent); and microenterprises that are graduates of the Carvajal-based training program (8.5 percent). The average loan size for the latter two is $971. BMM was phasing out its larger loan programs in order to concentrate fully on solidarity groups. Technical assistance is extended for the loan application process and marketing. Clients are selected on the basis of loan guarantees and character references. Whereas loans to solidarity groups are mostly for working capital, fixed and working capital loans are made to the guaranteed loan program and microenterprise loan recipients.

SUSTAINABILITY: At the time of the evaluation (1985), BMM was financing its operations with donated funds. It was practically independent of WWB headquarters.

BENEFICIARY IMPACT: The evaluation reported significant profit increases (80 percent), but insignificant employment impact. No new jobs were created in the solidarity group program; 42 jobs were created across all programs.

REFERENCES: Trade Development International Corporation 1985.

MICROENTERPRISE DEVELOPMENT ASSOCIATION; MICROENTERPRISE DEVELOPMENT PROGRAM

COUNTRY: Dominican Republic

IMPLEMENTING INSTITUTION: Local PVO: ADEMI, with technical assistance from U.S. PVO: ACCION/AITEC

APPROACH: Enterprise expansion

SERVICES: Primarily credit, loan-related training, and technical assistance

CLIENT PROFILE: Targets existing microenterprises, defined as businesses with six or fewer employees and less than $1,600 in fixed assets. The majority of loans are for manufacturing activities. Twenty-one percent of the beneficiaries are women, and the majority of women are concentrated in the service sector.

<u>PROGRAM DESCRIPTION</u>: Microenterprise Development Association (Asociación para el Desarrollo de Microempresas, Inc.) ADEMI is a private nonprofit institution operating as a financial intermediary, providing short-term working capital and some fixed asset loans to microentrepreneurs. It was initiated as a pilot project in Santo Domingo, Dominican Republic, in 1983, with financial support from Dominican public and private sector leaders and technical assistance from ACCION/AITEC. A.I.D.'s support between 1983 and 1986 amounted to over $1 million, in addition to in-kind donations. The project has received additional funding from the Inter-American Development Bank, the German technical assistance agency, and local sources. The project's principal objectives are to increase the income of Dominican entrepreneurs, create new employment, and strengthen existing jobs within the small-scale enterprise and microenterprise sector.

The project originally consisted of two components: the microenterprise program, which targets sole proprietors or enterprises with six or fewer employees, and the solidarity component, which lent to self-organized groups of three to eight members and ensured loan repayment through a group guarantee mechanism. While both programs had the objective of increasing incomes and employment, the solidarity group component had the additional objective of increasing group cohesion and cooperation. In 1984, ADEMI began to phase out its solidarity component, and in 1987, it decided to concentrate all of its resources on microenterprises. It believes that it can have a wider and more sustainable impact within this group.

Average loan sizes were reported to be $510 for microenterprises, though the initial loan size was almost always under $300. Loan sizes and terms increase with successive loans, depending on repayment performances. Loans are extended on the basis of loan guarantees and character references, and feasibility studies are conducted before an investment is funded. Technical assistance is demand driven and is provided on-site during loan administration visits.

<u>SUSTAINABILITY</u>: The project was reported to be self-sustaining on the basis of its own revenues.

<u>BENEFICIARY IMPACT</u>: Positive impacts were reported for the project beneficiaries. Sales, incomes, and employment increased significantly in the assisted enterprises.

<u>REFERENCES</u>: Gomez and Saladin 1987.

DOMINICAN ASSOCIATION FOR WOMEN'S DEVELOPMENT

COUNTRY: Dominican Republic

IMPLEMENTING INSTITUTION: Local PVO: Dominican Assocation for Women's Development (Asociación Dominicana para el Desarrollo de la Mujer, ADOPEM), which is the Dominican affiliate of a U.S.-based PVO: Women's World Banking (WWB)

APPROACH: Enterprise expansion

SERVICES: Primarily credit

CLIENT PROFILE: ADOPEM targets existing women-owned enterprises. Sixty percent of loans are made to the garment industry. Average client income is $100 per month--slightly more than the minimum wage of $83 per month.

PROGRAM IMPACT: ADOPEM was organized as a Dominican foundation in 1982. Its purpose is to advance and promote entrepreneurship by women who lack access to formal channels of credit. It is assisted by WWB through a loan guarantee program. Interest rates are 34 percent per annum.

ADOPEM extends credit to its clients and administers loan-related technical assistance loan follow-up activity. In 3 years of operation, ADOPEM had made 154 loans averaging $902. Clients are screened on the basis of investment feasibility analysis, group guarantees, and character-based references. Loans are generally for working capital.

SUSTAINABILITY: At the time of the evaluation (1985), ADOPEM was reported to be self-sustaining, partly because it relies on part-time or nonsalaried staff, thus minimizing its administrative costs.

BENEFICIARY IMPACT: According to the same evaluation, sales and profits in the assisted enterprises increased by 47 and 36 percent respectively within a year of loan receipt, and employment increased within the assisted enterprises.

REFERENCES: Trade & Development International Corporation 1985.

SMALL ENTERPRISE DEVELOPMENT PROGRAM/DEVELOPMENT FUND

COUNTRY: Dominican Republic

IMPLEMENTING INSTITUTION: Local development foundation: Asociación Para el Desarrollo (APEDI)

APPROACH: Enterprise expansion

SERVICES: Training, technical assistance, and credit

CLIENT PROFILE: Small Enterprise Development Program/Development Fund (Programa de Asistencia a la Pequeño Empresa/Fonda Para el Desarrollo, PROAPE/FONDESA) lends to urban-based manufacturing enterprises with 5-10 employees, which have been in operation for at least 6 months. At the time of the first loan, average net worth of the borrowers has to be less than $6,370 and average annual sales less than $11,465. Eighty-two percent of the loans are made to men and the remaining 18 percent to women. The program has three components with three separate target clienteles. The microenterprise component targets businesses with annual sales under $12,000 and net worth under $7,165. The small enterprise component assists enterprises with capital investments not exceeding $31,847. The solidarity group component targets solidarity groups composed of five members conducting similar economic activities.

PROGRAM DESCRIPTION: PROAPE and FONDESA are two divisions within the APEDI development foundation. PROAPE, founded in 1981, provides technical assistance to small enterprises and microenterprises. FONDESA was created in 1982 to make loans to the enterprises that receive technical assistance from PROAPE and to manage the loan portfolio. PROAPE/FONDESA's objectives are to increase employment in the lowest income groups, to improve the administrative and managerial capacity of small entrepreneurs and microentrepreneurs, and eventually to incorporate the informal sector into the formal one. APEDI has successfully mobilized resources from Dominican public and private sectors. A.I.D. has supported PROAPE/FONDESA's small enterprise component. The Inter-American Development Bank has provided grants for the microenterprise component, and the Inter-American Foundation has funded part of the solidarity group component.

PROAPE provides management training and conducts feasibility studies for small enterprises and microenterprises. The enterprises are then referred to FONDESA for loan applications or to financial institutions that participate in an A.I.D.- and Government-sponsored Small Industry Development program. Participation in a training program, consisting of up to nine courses, each lasting 10 hours, is a prerequisite to receiving a loan. Credit is viewed as an inducement to participate in the training program.

The average size of the initial loan to microenterprises is $796, while that to solidarity group members is $398. The average loan term is 1.5 years for microenterprises and 40 weeks for solidarity groups. Thirty-four percent of all loans are for fixed asset investments, 63.5 percent are for working capital, and the remaining 2.5 percent are for consumption or other purposes.

SUSTAINABILITY: Since PROAPE/FONDESA's financial operations are consolidated with the other divisions within APEDI, an independent assessment of the financial sustainability of the program was not possible. Forty-nine percent of PROAPE's income comes from commissions and course user fees, and the remaining comes from donations. FONDESA has been charging negative rates of interest, a practice that is contributing to the decapitalization of its net worth. If APEDI's costs are adequately allocated between divisions, FONDESA is suffering an operational loss. In addition, its real operational costs are underestimated. From the information available, it appears that the program will continue to require considerable external funding to continue its current operations.

BENEFICIARY IMPACT: No impact data were available for this project. Anecdotal evidence pointed to income and employment increases in the assisted enterprises.

SMALL ENTERPRISE DEVELOPMENT PROJECT

COUNTRY: Ecuador

IMPLEMENTING INSTITUTION:

- Technical assistance and representational component--local PVO: Institute of Socioeconomic and Technological Research (INSOTEC)

- Ecuadoran Development Foundation/ Eugenio Espejo Foundation (FEE/FED) (Fundación Ecuatoriana de Desarrollo/ Fundación Eugenio Espejo) component--local PVOs, with technical assistance from ACCION

- Carvajal component--local PVOs, with technical assistance from the Carvajal Foundation

-- Credit guarantee component--CARE. CARE is the prime contractor for all of the Small Enterprise Development Project (SEDP) credit activities.

APPROACH: Enterprise transformation and enterprise expansion.

SERVICES: Credit, technical assistance, and training

CLIENT PROFILE: INSOTEC serves enterprises with 5-20 employees, and the FEE and FED target enterprises with 1-5 employees and total assets of $1,600, as well as solidarity groups. Approximately 50 percent of the loans made by the FED and the FEE are to women. Forty-three percent of Carvajal's clients are women. Fifty-one percent of participants are in commerce, 29 percent in manufacturing, and 20 percent in services.

PROGRAM DESCRIPTION: SEDP was approved for funding by A.I.D. in July 1986 as a 3-year project consisting of four components: credit, technical assistance, representational services, and project coordination and evaluation. The SEDP project operates primarily in the smaller secondary cities in Ecuador's coastal regions. Its purpose is to expand and improve the supply of credit, technical assistance, and representational services to the microenterprise sector. Credit is to be provided to the smaller enterprises and technical assistance to the larger, and public relations efforts are to develop the sector's ability to represent itself.

The credit component, administered by CARE, with ACCION and the Carvajal Foundation as subcontractors, is to strengthen two existing microenterprise credit programs, the FED and the FEE; establish similar programs in five other secondary cities; and provide technical assistance and training to assist small-scale enterprises and microenterprises to graduate from the credit program to the formal banking system. ACCION is assisting the FED and the FEE, which provide short-term working capital loans with minimal amounts of training, and increase loan sizes as previous loans are repaid. The average loan size is $100 for the FED. The FEE has an average loan size of $198 for individuals and $223 for solidarity groups. Carvajal provides an integrated package of training, technical assistance, and credit to microenterprises. Beneficiaries are eligible to apply for credit only after completing four courses, each lasting 6-8 weeks, and are charged user fees to defray the cost of the courses. The average loan size is $1,500.

INSOTEC, under the technical assistance component, provides industry-specific technical assistance to larger enterprises than those served by the other institutions. Its purpose is to develop associations of small businesses to manage the provision of technical assistance and training to enterprises in specific sectors.

SUSTAINABILITY: Neither the FED nor the FEE had reached their objectives of self-sufficiency. By charging user fees, INSOTEC was reportedly covering 48 percent of its costs for providing group technical assistance and 74 percent of its costs of providing one-on-one technical assistance.

BENEFICIARY IMPACT: The project has not been operating long enough to measure any impact. At the time of the study, the project had been in effect for just over a year. The credit component had only begun to disburse loans in August 1988, two months prior to the study.

SMALL ENTERPRISE ASSISTANCE FOUNDATION: SMALL INDUSTRY AND MICROENTERPRISE DEVELOPMENT PROJECTS

COUNTRY: Guatemala

IMPLEMENTING INSTITUTION: Local PVO: FAPE, with assistance from U.S. PVO: Opportunity International

SERVICES: Credit, technical assistance, and training

CLIENT PROFILE: Under the Opportunity International project, FAPE lends to existing microenterprises with assets under $13,000. Women receive 9 percent of the number of loans extended. Loans are made to both urban and rural microenterprises.

Under the SIMME program, FAPE targets urban microenterprises in business for at least 2 years, with no more than six employees and less than $4,444 in assets.

PROGRAM DESCRIPTION: FAPE is an indigenous PVO with a religious orientation, established in 1984 with a $307,000 grant from Opportunity International, to be channeled into a small industry development project. Under this project, between 1985 and 1987 FAPE extended 155 loans totalling $300,000 and averaging approximately $1,935. Sixty-three percent of the number of loans and 80 percent of the value was for manufacturing activities, mainly in the woodworking, metalworking, leather, clothing, and food industries. The project's focus is on employment generation.

The major project activities are credit, training, and technical assistance. Loan sizes range from $200 to $10,000, and loan terms range from 12 to 36 months but average 24 months. Borrowers are required to take a preloan course in financial control. Borrowers also receive monthly one-on-one visits by project loan officers who monitor the loan and provide technical assistance as needed.

FAPE is also a participant in the SIMME program, which was created by the Government of Guatemala in 1987 to generate employment in microenterprises in urban areas. The SIMME program has been incorporated in the National Development Plan of 1987-1991. It extends credit and technical assistance to the urban microenterprise sector through six PVOs, one of which is FAPE.

In the first 9 months of FAPE's participation in the SIMME program, loan sizes ranged from $370 to $2,222 and averaged $1,220. The average loan term was 2 years, with a 4-year ceiling for fixed asset loans, and 406 microenterprises were financed. Target areas were restricted to certain zones in Guatemala city.

The lending transaction occurs between the participating bank and the microentrepreneur, with FAPE assisting the microentrepreneur with the loan application process and subsequent loan monitoring.

SUSTAINABILITY: FAPE is currently not financially self-sustaining. Its loan fund has decapitalized because of the devaluation of the Guatemalan currency since 1985. However, the organization has been able to mobilize external sources of capital effectively.

The Opportunity International program is estimated to cover 65 percent of all costs currently. The remaining 35 percent is expected to be covered by its participation in the SIMME program. FAPE receives 8 percent of the 16-percent annual interest charged and $11 per loan, as well as funds from donors. It is expected to receive a 30-year $400,000 loan at 1 percent interest from the Inter-American Development Bank in 1989, as well as an $85,000 grant for training.

BENEFICIARY IMPACT: High employment generation impacts have been reported for both of FAPE's programs. Available data reflect positive gains in employment, production, and sales.

REFERENCES: Hirsh et al. 1988.

FOUNDATION FOR THE DEVELOPMENT OF SOCIOECONOMIC PROGRAMS: PRIVATE SECTOR DEVELOPMENT COORDINATION PROJECT

COUNTRY: Guatemala

IMPLEMENTING INSTITUTIONS: Momostenango and Nahuala projects--local PVO: Foundation for the Development of Socioeconomic Programs (Fundación Para el Desarrollo Integral de Programas Socioeconómicos, FUNDAP)

Business Promotion and Services (PROSEM) (Promoción y Servicios Empresariales)--local PVO: FUNDAP, with technical assistance from a U.S. PVO: ACCION

SERVICES: Momostenango--industry-based credit, technical assistance, and training; Nahuala--technical assistance; PROSEM--credit, technical assistance, and training

CLIENT PROFILE:

-- Momostenango: enterprises in the sheep-raising and wool-processing industry, with monthly incomes of $75 to $140

-- Nahuala: enterprises in the wood and wood products industry

-- PROSEM: existing microenterprises in the manufacturing, service, and commercial sectors, with less than 10 employees

PROGRAM DESCRIPTION: FUNDAP is a nonprofit private organization, established in 1981 by a group of Guatemalan private sector leaders. Beginning in 1985, A.I.D. has provided $635,985 to FUNDAP, through an umbrella project with the Guatemalan Chamber of Commerce, to implement an integrated project to support the cottage weaving industry in the highland town of Momostenango. A.I.D. also provided $195,000 to FUNDAP for a forestry management and carpentry project in the highland town of Nahuala. In 1987, under a microenterprise credit program, A.I.D. extended $2,168,000 to ACCION to support FUNDAP and another institution in implementing microenterprise credit programs.

In 1986, FUNDAP initiated the Momostenango project to foster the establishment of small-scale enterprises and microenterprises involved in the wool-processing industry and to increase employment and income levels in the project site. The project has two components. First, it aims to support sheep production to secure a sustained source of wool for weavers, by raising the volume and quality of wool available in the region and supporting associations of sheepherders to strengthen the long-term development of the sheep industry in Guatemala. The second component supports the production and marketing of artisan wool products by developing an institutional intermediary to supply raw materials and market artisan products for domestic and export markets.

FUNDAP has assisted in the creation of 13 technical assistance centers that provide to four sheep stations technical support in the areas of veterinary care, animal husbandry, wool production, and so forth. FUNDAP also provides credit to groups and has extended nine loans with a total volume of $7,560, averaging $1,400. Of approximately 50,000 sheep producers identified, 2,000 have received technical assistance and training.

A raw materials bank, raw materials and finished products warehouse, weaving school, and marketing firm have been developed by FUNDAP as part of an integrated support system for artisans. Sixty artisan enterprises and 119 individuals have received technical assistance and training in areas of weaving, dying, and marketing. In addition, 99 loans have been extended to artisans, for a total volume of $8,717. The average loan size for raw material purchases is $7.40, and the average loan size for working or fixed capital investments is $259.

The Nahuala project was initiated in 1988 and is an integrated program to support the production and sale of furniture and wood products. The project objectives are to initiate a reforestation campaign, strengthen the production and commercialization of wood products, and increase the income and employment of artisans producing wood-based products in Nahuala.

Under the Nahuala project, FUNDAP provides enterprises with technical assistance in seedling development, reforestation, and forest maintenance through 18 technical assistance centers it established. In addition, it has created for carpenters a raw materials bank and a carpentry school for training in production techniques and appropriate technology.

The PROSEM project was initiated in July 1988. It builds on the ACCION methodology for microenterprise credit programs. In the first 4 months of its operations, it extended 198 loans for a total of $50,842. The average loan size is $140 for individuals and $351 for group loans for productive activities, and $768 for group loans for commercial activities. Average loan terms are 3 months.

<u>SUSTAINABILITY</u>: The Momostenango and Nahuala programs have a limited cost-recovery potential. They currently depend on grants from the Ministry of Agriculture to cover program costs. Although market prices are charged for inputs provided through the

raw material banks, no fee is charged to recover the costs of the technical assistance or training programs. In addition, charging subsidized interest rates on modest loan portfolios is decapitalizing the loan fund.

PROSEM currently covers 23 percent of its operating costs, which do not include the cost of expatriate technical assistance provided by ACCION. The program expects to cover its costs, including technical assistance and training costs, and be self-sustaining within 3 years.

BENEFICIARY IMPACT: The Momostenango and Nahuala projects assist very poor segments of society. The Momostenango program has reportedly had a significant impact on the income of sheep-herders. The project's technical assistance has helped to reduce sheep and lamb mortality rates by substantial amounts and to increase the volume and quality of wool produced in the targeted areas. Inputs have been made available at 30 percent less than previous costs. The program has also led to increased market linkages.

The PROSEM project had not been in place long enough to observe beneficiary impacts.

REFERENCES: Hirsh et al. 1988.

WOMEN'S DEVELOPMENT FOUNDATION

COUNTRY: Guatemala

IMPLEMENTING INSTITUTION: Local PVO: FDM

APPROACH: Enterprise transformation

SERVICES: Primarily credit, coupled with technical assistance and training

CLIENT PROFILE: FDM targets both existing and potential women entrepreneurs. It lends to groups of at least two women with family incomes of less than $40 per month. Sixty-one percent of the loans are to women in the manufacturing sector and 24 percent to women in the service sector, and 15 percent of loans are used to finance activities in animal husbandry. FDM extends 42.2 percent of all loans to urban enterprises.

PROGRAM DESCRIPTION: FDM's objective is to assist existing and potential women entrepreneurs to expand and begin enterprises. It was created in September 1981 with assistance from A.I.D., which provided an operating program grant of $305,000. Of this grant, $180,530 was used to provide credit for beneficiaries, and the remainder was used for operating and other start-up costs. The Rotary Club of Guatemala provided an additional $174,274 for FDM. The Inter-American Development Bank (IDB) provided a $300,000 loan at 1 percent interest and an $80,000 grant for technical assistance.

FDM extends credit to microenterprises. The average loan size is $5,470. Loans are for both working capital and fixed capital investments. Loan terms range from 15 to 60 months and average 33 months. Loans must be guaranteed by cosigners, collateral, property mortgages, or by any combination of these. FDM provides only one loan to each beneficiary and provides no follow-up once the loan is paid back. The project has assumed the role of handling funds from a finance company. Borrowers deposit payments into FDM's account at local bank branch offices or pay directly at FDM's office.

During 1986, a year after the IDB loan, the Guatemalan currency was weakened. Since FDM had to repay the IDB in dollars, the expected devaluation of the Guatemalan currency prevented it from extending loans that would be repaid in devalued currency. After a 250-percent devaluation of the currency by the end of 1986, the IDB money moved rapidly. By October 1988, FDM had made 180 loans for a total of $560,250, with an average loan size of $3,112 per group. FDM's current portfolio was approximately $302,000 in the same period.

FDM initiated a training program with funds provided by a West German foundation. This program consisted of 1-week-long training sessions in business administration and finance. In addition, the program provided one-on-one technical assistance every 3 months.

SUSTAINABILITY: FDM continues to depend on external sources of funding for its operations. The current system of funding approval from ASINDES, an A.I.D.-supported umbrella organization for PVOs, is lengthy and inefficient, often undermining the project's performance. In 1987, FDM had a net loss of $17,035. In October 1988, FDM had almost $80,000 in bank accounts, indicating that it preferred the security of bank interest to lending the money to microentrepreneurs.

BENEFICIARY IMPACT: In 1988, FDM conducted an evaluation of the performance and impact of 105 loans. The data and observations collected by the field team for this study indicate that FDM has been effective in assisting its target group.

REFERENCES: Hirsh et al. 1988.

NATIONAL DEVELOPMENT FOUNDATION OF HONDURAS

COUNTRY: Honduras

IMPLEMENTING INSTITUTION: Local PVO: National Development Foundation of Honduras (Fundación Nacional Para el Desarrollo de Honduras, FUNADEH), with technical assistance from a U.S.-based PVO: Pan American Development Foundation (PADF)

APPROACH: Enterprise transformation

SERVICES: Credit, technical assistance, and training

CLIENT PROFILE: FUNADEH targets mostly new enterprises. Thirty-five percent of project beneficiaries are women.

PROGRAM DESCRIPTION: FUNADEH provides credit, technical assistance, and training to small entrepreneurs and microentrepreneurs who are unable to obtain credit elsewhere. Its objective is to develop small-scale enterprises to increase the living standards of the entrepreneurial poor. FUNADEH receives funding from the private sector in Honduras and technical assistance and training from PADF through an A.I.D.-funded operational program grant. A.I.D. funding began in 1985. It also receives funding from the Inter-American Foundation and Inter-American Development Bank (IDB), among others.

In the first year of its operation, FUNADEH provided 176 loans, with an average loan size of $3,600 and an average loan term of 18 months. Loans are extended on the basis of feasibility analyses of the proposed investments. Since the majority of loans are to new businesses, the loans are generally for fixed capital investments or working capital for start-up costs.

SUSTAINABILITY: FUNADEH seems very unlikely to attain financial self-sustainability in the near future. At the time of its evaluation (1986) it remained dependent on grants. An increase in interest rates would reduce the external capital required for operations.

BENEFICIARY IMPACT: On the basis of a retrospective survey of a randomly selected small sample of clients, average incomes and employment were reported to have increased in 55 percent of the assisted firms, and the technical assistance was reported to have improved business management and record-keeping practices within the assisted enterprises.

REFERENCES: Heinzen 1986.

WOMEN IN BUSINESS PROGRAM

COUNTRIES: Costa Rica; Honduras; El Salvador

IMPLEMENTING INSTITUTION: U. S.-based PVO: Overseas Educational Fund International (OEF/I)

APPROACH: Enterprise formation

SERVICES: Credit, training, technical assistance, technology transfer, community development

CLIENT PROFILE: The project targets rural women. Forty-five percent of the loans are for new enterprises. Forty-seven percent of all loans are for manufacturing activities; 25 percent are for small livestock; 15 percent are to the commerce sector; and 13 percent are for agricultural production.

PROGRAM DESCRIPTION: OEF/I launched its small enterprise program in Central America in 1983, with the objective of promoting effective business development. It was assisted by a $2 million central operational program grant from A.I.D. OEF/I provides an integrated approach to enterprise development, providing organization, training, credit, and technical assistance to assist rural women to start up or administer microenterprises. Its objectives are to assist economically marginal rural women, enhance their income through entrepreneurship, increase their economic opportunities, and increase women's access to formal institutions. It follows a community development approach to reach the very poor.

OEF has lent to over 590 rural women, with an average loan size of $2,213. It has evolved from lending primarily to group enterprises, using loan guarantees, to focusing on individual enterprises and revolving loan funds. Its training component spans 12-16 weeks and is designed to impart business skills, as well as cultivate self-esteem and business attitudes. Two-thirds of OEF clients do not seek credit after the training program. Clients are selected on the basis of the viability of the proposed activity and character references. Loans are extended for both working capital and fixed investments.

SUSTAINABILITY: The programs are not self-sustaining. Overhead rates were reported to be higher than for other comparable projects in Central America, and were also high because of the experimental nature of the program and associated start-up costs. The project could become more cost-effective as it matures and indigenizes its efforts.

BENEFICIARY IMPACT: According to two evaluation reports, the beneficiary impacts are positive, leading to increased income and employment for beneficiaries, 79 percent of whom had no prior access to credit.

REFERENCES: Berenbach 1988; Lassen 1988b.

NATIONAL DEVELOPMENT FOUNDATION OF JAMAICA

COUNTRY: Jamaica

IMPLEMENTING INSTITUTION: Local PVO: National Development Foundation of Jamaica (NDF-J), with technical assistance from a U.S. PVO: Pan American Development Foundation (PADF)

APPROACH: Enterprise transformation

SERVICES: Credit, training, and technical assistance

CLIENT PROFILE: Twenty percent of enterprises assisted by NDF-J are new. Thirty-five percent of project beneficiaries are women. Forty-four percent of project resources go to the manufacturing sector, 45 percent to service firms, and 11 percent to agriculture or agriculture-related activities.

PROGRAM DESCRIPTION: NDF-J was created in November 1981 through an A.I.D. operational program grant to PADF, with the explicit purpose of creating jobs and increasing incomes at the lowest level of the private sector. Jamaican private sector leaders and organizations gave wide support to the effort to establish an indigenous private sector organization addressing the needs of the small enterprise sector.

NDF-J provides an integrated and closely tied service of credit and technical assistance to its clients. Between 1982 and 1986 NDF-J disbursed 1,202 loans accompanied by ongoing technical assistance over the life of the loans. Average loan size was $2,181. NDF-J's ratio of technical assistance recipients to loan recipients is almost 9:1. The functions of the technical assistance component are to conduct technical and financial evaluations of proposed investments, conduct group training to familiarize clients with business principles, and give ongoing technical and advisory services to loan clients. The almost 9,000 training beneficiaries have received assistance on an ad-hoc or one-time basis. Loans are extended on the basis of extensive feasibility analyses of the proposed investments.

SUSTAINABILITY: The program will continue to depend on external sources of income.

BENEFICIARY IMPACT: The project's impact on its beneficiaries has been positive: 74 percent of them are reportedly growing impressively, with marked increases in sales and profitability.

REFERENCES: Prentice 1983; Trevor Hamilton and Associates 1987.

MICROENTERPRISE PROGRAM OF THE PARAGUAYAN DEVELOPMENT FOUNDATION

COUNTRY: Paraguay

IMPLEMENTING INSTITUTION: Local PVO: Fundacíon Paraguaya de Cooperacíon y Desarrollo (FPCD), with technical assistance from a U.S. PVO: ACCION

APPROACH: Enterprise expansion

SERVICES: Credit, training

CLIENT PROFILE: Targets existing enterprises, 60 percent of which are operated by women. Ninety-six percent of loans go to enterprises with less than two employees. Sixty-three percent of loans are made to traders, and 45 percent are to manufacturing enterprises.

PROGRAM DESCRIPTION: The FPCD was established in February 1985, with funding from USAID/Paraguay and local public and private sector resources, after a feasibility study conducted by ACCION/AITEC concluded that a microenterprise project was feasible in Paraguay. FPCD's goal is to create employment and increase incomes for the poorest sector of the population in the Asunción metropolitan area by promoting microenterprise development.

FPCD extends credit, technical assistance, and training to project beneficiaries. As of November 1988 it had made 2,938 loans, averaging $100 for individually owned enterprises and $452 for solidarity groups. Loan terms average 8 weeks. Ninety percent of all loans were in amounts of $300 or less, and the majority were for working capital. FPCD requires all beneficiaries to undergo a standardized preloan training program in credit management, accounting, marketing, and business management.

SUSTAINABILITY: FPCD is very likely to become financially self-sustaining in the near future. In 1988, project-generated revenue was expected to cover 80 percent of operating costs. Interest rates are adjusted periodically to keep them positive in real terms.

BENEFICIARY IMPACT: A baseline survey conducted 6 months after receiving project resources reported that sales, inventories, net profits, and savings had increased by 42 percent, 66 percent, 35 percent, and 100 percent, respectively. Family expenditures increased by 14 percent over the same 6-month period.

REFERENCES: Magill and Alforso 1985.

URBAN DEVELOPMENT FUND

COUNTRY: Peru

IMPLEMENTING INSTITUTION: Government development bank: the Industrial Bank of Peru

APPROACH: Enterprise transformation

SERVICES: Primarily credit, some technical assistance

CLIENT PROFILE: The Urban Development Fund (UDF) targets enterprises with an average asset size of $16,000 and average net worth of $14,000. Eighty-two percent of loans are to existing enterprises, and 18 percent are for start-up activities. Forty percent of the beneficiaries are women. Enterprises in the manufacturing sector receive 75 percent of all loans; 8 percent are to the service sector; and 17 percent are for commerce activities.

PROGRAM DESCRIPTION: The UDF project was designed in early 1982 to replicate the Rural Development Fund Project in urban coastal areas of Peru. It was initiated with funding from A.I.D. and the Government of Peru to provide loans to small enterprises that lack access to alternative formal sector sources of credit, in order to increase incomes and employment in the urban shantytowns of Peru. The project was run as part of its implementing institution's general lending program.

The project was launched in the midst of the worst recession in Peru's history and during a time of triple-digit inflation rates. Although the Industrial Bank of Peru's annual interest rates were over 80 percent, they were still negative in real terms, a situation that led to rapid decapitalization of the loan fund.

The project provides credit to its clients. In addition, it provides a very limited amount of training in finance, accounting, marketing, and so on. Average loan sizes are $3,500, with between working capital and fixed capital purposes. Clients are screened on the basis of character guarantees, feasibility analyses of the investment, business registration, and collateral requirements.

SUSTAINABILITY: Project sustainability seems unlikely because of inflation rates in Peru. Project interest rates were adjusted upward but, with annual inflation rates exceeding 100 percent, they were still negative in real terms.

BENEFICIARY IMPACT: On the basis of a retrospective survey of a random sample of clients, the project was reported to have a positive impact on its beneficiaries. Sales increased, and though gross profit rates declined because of overall poor economic conditions, they declined less than in unassisted enterprises.

REFERENCES: Goldmark and Deschamps 1985.

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